SUPREME COURT, U. S.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1965.

No. 763

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,

Petitioner,

against

MONSANTO CHEMICAL COMPANY, Successor by Merger to THE CHEMSTRAND CORPORATION,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT.

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No. .

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
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against

MONSANTO CHEMICAL COMPANY, Successor by Merger to THE CHEMSTRAND CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT.

TO THE HONORABLE THE CHIEF JUSTICE AND THE ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES:

Petitioner respectfully asks that a writ of certiorari be issued to review the judgment of the United States Court of Appeals for the Second Circuit, insofar as it reversed the judgment of the United States District Court for the Southern District of New York, remanded this action for an accounting of petitioner's profits and affirmed the District Court's award to respondent of $15,877.88 for legal fees and expenses, together with an additional allowance of $1,500 to respondent for legal expenses on appeal.

Opinions Below.

The District Court opinion after trial is printed in the appendix to petitioner's main brief in the Court of Appeals (R28a-33a)* and is reported at 232 F. Supp. 493 (1964). The opinion of the District Court after hearing on legal fees and expenses is also printed in said appendix (R6a-10a) but has not been reported. The opinion of the Court of Appeals is printed in the appendix hereto (A-1—A-18) and is reported at 349 F. 2d 389 (1965).

Statement of Jurisdiction.

The judgment of the Court of Appeals was entered on July 28, 1965 (A-19); and its order denying rehearing was entered on August 26, 1965 (A-21). The jurisdiction of this Court is invoked under 28 U. S. C., Section 1254(1).

Questions Presented.

Section 35 of the Lanham Act, 15 U. S. C., Sec. 1117, provides that, in a trademark infringement action, the successful plaintiff may recover, *subject to the principles of equity,* the defendant's profits, any damages sustained by the plaintiff and the costs of the action. The statute contains the proviso that the amount for which judgment may be entered, whether as to profits or damages, "... shall constitute compensation and not a penalty" (A-22).

This Court has held that the statute does not automatically entitle a successful trademark plaintiff to an

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* Parenthetic designations (R.) refer to pages of the appendix to petitioner's main brief in the Court of Appeals, as contained in the Record. Designations (A-) refer to pages of the Appendix to this Petition.

accounting of the defendant's profits, even where there is direct competition between the parties.

Champion Spark Plug Co. v. *Sanders*, 331 U. S. 125 (1947)

The threshold question presented in this case is whether a successful trademark plaintiff may be awarded an accounting of the defendant's profits, where the parties do not conduct business on the same level of commerce, are not competitors in any sense and there is no proof of any damage sustained.

The subsidiary question is whether a trademark plaintiff may be awarded legal fees and expenses incurred in the prosecution of the action, when the relief ultimately granted is no more than that which was tendered to and refused by it at the commencement of the action.

The Statute Involved.

The statutory provisions involved are contained in Section 35 of the Lanham Act, 15 U. S. C. Sec. 1117, printed in the Appendix hereto (A-22). The provisions of Rule 68 of the Federal Rules of Civil Procedure, also printed in the Appendix (A-23), are involved in the consideration of the subsidiary question presented.

Statement of the Case.

Respondent is a manufacturer of synthetic fibers, including one for which it holds the registered trademark "Acrilan" (R35a-36a). Petitioner is a wholesaler of accessory products for the bed, including mattress pads, coverlets and bedspreads, which are manufactured accord-

ing to its specifications (R38a). Petitioner purchased Acrilan fiber from respondent, for use in the production of mattress pads (R44a). When the first mattress pads produced for and sold by petitioner reached the retail market, respondent objected to the manner in which petitioner was using the Acrilan trademark (R45a). Petitioner's attempts to satisfy respondent's complaints were unsuccessful (R45a-46a). Respondent then brought this action to enjoin petitioner's use of the trademark and to recover damages allegedly sustained by it and an accounting of petitioner's profits (R28a). The jurisdiction of the District Court was predicated upon 28 U. S. C. Secs. 1338 and 1391 (R34a).

Petitioner's alleged infringement of respondent's trademark was brief in point of time and limited in extent. Petitioner sold about 1425 dozen mattress pads, from late April to early November 1958, when the action was commenced. Approximately 275 dozen were returned to petitioner, at its request, in the course of its attempts to satisfy respondent. As a result, about 1150 dozen pads remained in the retail market, for sale to ultimate consumers (R39a). The pads were sold by petitioner to retail for $3.98 each (R31a). Petitioner's total pad sales under the Acrilan trademark amounted to about $45,000, in sharp contrast with respondent's sales of Acrilan, which exceeded $50,000,000 in the years from 1955 through 1958 (R35a) and were steadily increasing. Respondent's total sales of synthetic fibers exceeded $146,000,000 for the year 1957 alone (R35a).

At the time this action was commenced, petitioner's experience with Acrilan fiber had been brief and wholly unsatisfactory. Accordingly, rather than become involved in extended and costly litigation, petitioner immediately offered to discontinue use of the Acrilan product and trade-

mark and to consent to an appropriate permanent injunction (R13a, 14a, 22a). Respondent's counsel prepared and submitted a proposed consent decree, after discussions with petitioner's counsel (R12a). In addition to providing for permanent injunctive relief, to which petitioner had offered to consent, the proposed judgment contained provision for the payment to respondent of $10,000, in damages (allocated $7,000 to injury to respondent's good will and $3,000 to respondent's expenses, including attorneys' fees) (R23a-27a).

Petitioner rejected the proposed judgment because of the damage provision, but reiterated in writing its offer to consent to a permanent injunction, in specified form (R22a). The offer was renewed, periodically, throughout the pretrial proceedings and at the trial (R7a). Respondent consistently refused to accept the offer of injunctive relief, unless petitioner also agreed to pay "damages". The amount demanded by respondent increased, from time to time, in direct proportion to respondent's expenditures for legal fees (R18a, 20a).

Respondent persisted in prosecuting the action to final judgment which was entered on July 1, 1964 (over five and one-half years later), solely in the attempt to recover damages (R17a). At the trial, petitioner rested on respondent's case and adduced no evidence. It did so in reliance upon respondent's failure to prove any damages and the rule of law that an accounting of profits could not be granted in the complete absence of competition between the parties or any proof of damage.

After trial without a jury, the District Judge filed an opinion and findings and conclusions. He granted an injunction, narrower in scope than petitioner had originally offered (R4a); denied any recovery of damages, because

of failure of proof (R30a-32a, 49a); and denied an accounting, as a matter of law (R32a, 48a). Nevertheless, the District Judge awarded costs to respondent, *including legal fees and expenses* (R32a, 49a). He directed that the amount of fees and expenses be determined at a subsequent hearing, because of an insufficiency of proof and also because petitioner had questioned the propriety of such an award, on the same grounds urged here (R33a, 49a). After a hearing, the District Judge awarded respondent $15,000 for reasonable attorneys' fees and $877.88 for other expenses (R10a). Petitioner appealed from the award (R3a). Respondent cross-appealed from the denial of damages and of an accounting (A-4).

The Court of Appeals affirmed the denial of damages without further comment, reversed the judgment below, insofar as it denied an accounting, and remanded the case for that purpose. The Court affirmed the award of legal fees and expenses, solely because of the remand for an accounting (A-4). The Court of Appeals acknowledged that its decision granting an accounting was in direct conflict with prior decisions in the same Circuit:

> "...we overrule Admiral Corp. *v.* Penco., Inc., *supra,* and Triangle Publications, Inc. *v.* Rohrlich, *supra,* so far as they are inconsistent with our holding in the present case" (A-4);

and also with the universal rule set forth in the Restatement of Torts, Section 747 (A-6, 13). Noting that all of the active judges in the Circuit had been advised of the opinion and that none had requested en banc consideration (A-15), the Court expressed the rationale of its decision as follows:

> "We do not hold that it is irrelevant whether the parties are in direct competition; compensation for

> diverted trade is one important purpose which an accounting may serve. To restrict accountings to this single purpose, however, fails to take account of the other purposes served by the trademark law. Under the circumstances of this case, a judgment limited to an injunction is clearly inadequate . . ." (A-15).

The Court employed its acknowledged departure from existing law as the means of avoiding determination of the question raised by petitioner's appeal, saying:

> "With respect to the defendant's appeal, since the relief *ultimately* granted *will* go beyond that offered by the defendant in settlement prior to the trial, we do not reach the question whether the award of legal fees would *otherwise* have been improper". (A-4). (Emphasis supplied)

The Court held that the award made below was reasonable in amount and left for determination below whether any further allowance should be made to respondent, for expenses incurred on remand. Respondent was awarded an additional $1,500 for legal expenses on the appeal (A-5).

The Reasons for Allowance of the Writ.

1. The decision of the Court below is in direct conflict with the decisions of Courts of Appeal in at least five, if not all, other Circuits.

The conflict results from the Court's novel conclusion that an accounting of profits may be granted in a trademark case, upon a finding of infringement, where there is no competition between the parties, no diversion of trade and no finding of damage sustained. That concept is a radical departure from the established rule that account-

ings are granted only when the parties are *in competition,* on the *same level of commerce,* the complainant actually has, or may be presumed to have, sustained *damage* because of a *diversion of trade* and it appears that the infringer made substantial profits (A-6).

> *Vogue Co.* v. *Thompson-Hudson Co.* 300 Fed. 509 (6th Cir.); Cert. den. 273 U. S. 706
>
> *Rosenberg Bros. & Co.* v. *Elliott* 7 F. 2d 962 (3rd Cir.)
>
> *Horlick's Malted Milk Corporation* v. *Horluck's, Inc.* 59 F. 2d 13 (9th Cir.)
>
> *Obear-Nester Glass Co.* v. *United Drug Co.,* 149 F. 2d 671 (8th Cir.); Cert. den. 326 U. S. 761
>
> *Hanson* v. *Triangle Publications* 163 F. 2d 74 (8th Cir.); Cert. den. 332 U. S. 855
>
> *Q-Tips, Inc.* v. *Johnson & Johnson* 206 F. 2d 144 (3rd Cir.); Cert. den. 346 U. S. 867
>
> *McCormick & Co.* v. *B. Manischewitz Co.* 206 F. 2d 744 (6th Cir.)
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> *Square D. Company* v. *Sorenson* 224 F. 2d 61 (7th Cir.)
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> *Morgenstern Chemical Company, Inc.* v. *G. D. Searle & Company* 253 F. 2d 390 (3rd Cir.)
>
> *Sterling Drug, Inc.* v. *Lincoln Laboratories, Inc.* 322 F. 2d 968 (7th Cir.)

The Court below conceded that its decision was in direct conflict with prior decisions in the Second Circuit, including *Admiral Corp.* v. *Penco, Inc.,* 203 F. 2d 517, in which it apparently had made a final statement on the subject:

> "Turning to plaintiff's cross-appeal, plaintiff urges that a right to an accounting had become mandatory under the Lanham Act, 15 U. S. C. Sec. 1117, thus superseding the earlier view, 3 Restatement, Torts Sec. 747, that where the respective products

were not directly competing, the plaintiff may not recover profits. We have held otherwise, however, and *that now seems the settled construction of the statute.*" (Emphasis supplied)

2. The decision of the Court below is in direct conflict with a basic concept of trademark law, as enunciated by this Court.

The Court below granted an accounting, not ". . . to make the plaintiff whole for losses which the infringer has caused . . ." (the purpose expressed in *Mishawaka Rubber & Woolen Manufacturing Company* v. *S. S. Kresge Company,* 316 U. S. 203, 206), but solely ". . . to deter future infringements by imposing a money judgment on the defendant." (A-13).

This Court has held, however, that even in cases involving direct competition between the parties, an accounting of profits should be awarded only ". . . where a trademark has been infringed and where there is a basis for finding damage to the plaintiff and profit to the infringer . . .", not ". . . merely because there has been an infringement" (*Champion Spark Plug Co.* v. *Sanders,* 331 U. S. 125, 131) and not as a punitive measure, but rather ". . . as an equitable measure of compensation . . ." (*Hamilton-Brown Shoe Co.* v. *Wolf Brothers & Co.,* 240 U. S. 251, 259).

In *Champion Spark Plug, supra,* this Court cited

> *Durable Toy & Novelty Corp.* v. *J. Chein & Co.,* 133 F. 2d 853 (2nd Cir.); Cert. den. 320 U. S. 211

in which Judge Learned Hand rejected the argument that proof of diversion of trade by a competing infringer was not essential to the award of an accounting, saying:

> "That would, however, run counter to the whole basis of the law of the subject; for a trademark never

> really gives any property in the words themselves; all it does is so to identify the 'owner' that its use by others can be said to divert to them customers who might otherwise have bought of him."

The substantial general importance of the question presented is also demonstrated by the conflict betweeen the decision below and the rule stated in Section 747 of the *Restatement of Torts,* which provides that a trademark infringer is liable for profits resulting from the infringement only if, among other things:

> "(b) the profits result from the marketing of goods or services
>
> (i) of a kind which *compete* with those marketed by the other . . .". (Emphasis supplied)

The rationale of the rule is explained in the comments which follow Section 747:

> "The defendant's profits are awarded to the plaintiff as the equitable measure of his compensation for loss of sales . . .";
>
> • • • • • •
>
> ". . . the accounting for defendant's profits is, historically, a substitute for damages for the plaintiff's loss of sales."

With respect to cases involving parties marketing *non-competing* goods, the Restatement comments:

> "In such instances the assumption cannot be made that the defendant's profits constitute a fair measure of the plaintiff's loss, *for the defendant's sales are not diverted from the plaintiff*". (Emphasis supplied)

3. The question whether an award of legal fees and expenses was proper in this case should be reviewed by this Court as a matter of first impression and general importance.

The very nature of such an award, made as a matter of judicial discretion and without statutory warrant, runs contrary to a basic concept of our system of jurisprudence, which calls upon each litigant, with rare exception, to pay his own legal expenses. The award, under the circumstances of this case, violated the intent, if not the letter, of Rule 68 of the Federal Rules of Civil Procedure (A-23), which is designed to encourage the speedy settlement and disposition of litigation; and, if left undisturbed will serve to encourage prolonged, wasteful and unnecessary litigation. In trademark infringement cases such as this, involving parties of greatly disparate economic strength, the inevitable result will be to place a new weapon of financial attrition in the hands of self-appointed private guardians of the "public interest" (A-2, 13).

In any event, if the Writ should be granted to review the propriety of the accounting award, the propriety of the award of legal fees and expenses must also be reviewed. Otherwise, the decision of the Court below, in that respect, would remain undisturbed, although the only basis on which it failed to " . . . reach the question whether an award of

legal fees would otherwise have been improper" (A-4) might cease to exist.

Conclusion.

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

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Opinion of the Court of Appeals.

MONSANTO CHEMICAL COMPANY, Successor by merger to The Chemstrand Corporation,
Appellee-Appellant (Plaintiff),

v.

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Appellant-Appellee (Defendant).

No. 384, Docket 29179.

UNITED STATES COURT OF APPEALS

SECOND CIRCUIT.

Argued March 17, 1965.

Decided July 28, 1965.

WALTER H. FREE, New York City (Brumbaugh, Free, Graves & Donohue, and John F. Neary, Jr., Richard A. Lochner, New York City, on the brief), for appellee-appellant (plaintiff).

JAY F. GORDON, New York City (Natanson, Gordon & Reich, and Melvyn Altman, New York City, on the brief), for appellant-appellee (defendant).

Before

LUMBARD, Chief Judge, and MOORE and MARSHALL, Circuit Judges.

LUMBARD, Chief Judge:

The issue on this appeal is whether the district court erred in refusing to allow an accounting of the profits gained

by the defendant through its deliberate infringement of the plaintiff's trademark on the ground that the parties were not in direct competition. We conclude that the public interest in deterring fraudulent sales practices requires that such an accounting be allowed, and we therefore remand the case for such accounting.

The facts, as found by Judge McLean after a trial at which the defendant adduced no evidence, are undisputed. The plaintiff, Monsanto Chemical Co., produces an acrylic fiber, which it markets under the registered trademark "Acrilan." This mark was registered under the Lanham Trademark Act of 1947, 15 U.S.C. § 1051 et seq. The defendant, Perfect Fit, deliberately infringed this mark by selling mattress pads falsely labeled as Acrilan-filled. The pads were produced for Perfect Fit by the Carolina Manufacturing Co., which was in effect Perfect Fit's manufacturing division.[1]

After initial discussion between Perfect Fit and Monsanto concerning manufacture of a 100 per cent Acrilan-filled coverlet, Perfect Fit decided in March of 1958 to market an "Acrilan" mattress pad instead. It ordered some 20,000 pounds of acrilan fiber from Monsanto and 30,000 "Acrilan"-labeled polyethylene bags from a supplier. The first pads were shipped in late April, but Monsanto did not learn of them until late May and then only through a trade publication; all of the prior communications between the parties had concerned the proposed coverlet.

Monsanto tested one of the pads, supplied at its request by Perfect Fit, and found that it contained only 8.5 per cent acrylic fiber, the rest being rayon. When confronted with this finding, Perfect Fit explained that Carolina must have

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[1] Carolina was owned by Manuel Fisher, a former employee of Perfect Fit and a brother-in-law of Perfect Fit's president. During 1958—the year involved in this case—all of Perfect Fit's products were produced by Carolina, and over 90 per cent of Carolina's sales were to Perfect Fit. Perfect Fit itself purchased the raw material and labels, and it gave Carolina detailed instructions regarding manufacture of the pads.

made a mistake, and it promised to send another sample with 100 per cent Acrilan. The second sample never arrived.

Monsanto then purchased a number of the Perfect Fit pads in retail stores. All these pads, labeled as Acrilan mattress pads, contained less than 25 per cent of acrylic fiber and some contained none whatever. The rest of their fill consisted of cotton, acetate, nylon and other fibers, mixed in various proportions. Some of the fibers were second-hand waste materials, such as fibers from floor sweepings, which contained considerable amounts of dust.

The labels on the pads claimed that the pads were "completely sanforized to prevent shrinkage" and "allergy—dustproof—mothproof—will not mildew." Each of these claims was false. In addition, the covers for the pads, as the district court found, were made of

> "cheap, poor quality cloth, low in thread count and heavily sized with 30 per cent by weight starch and talc to give the appearance of good quality cloth. As evidenced by before and after washing specimens, the sizing rinsed out with a single washing leaving a dust-porous, rough fabric having an inferior appearance."

At a meeting on July 25, Perfect Fit admitted the mislabelling, and, on Monsanto's insistence, supplied what purported to be a list of the customers for the pads. In fact, however, the largest customer was not on the list.

The parties again conferred in August, and Perfect Fit proposed to manufacture a nylon-Acrilan pad, so labeled. Nothing came of this, however, and Monsanto brought suit in November in the Southern District, alleging infringement of its trademark and unfair competition. Jurisdiction was based on 28 U. S. C. §1338. In December, Perfect Fit consented to a preliminary injunction.

Following a trial without a jury, Judge McLean found that Perfect Fit had infringed Monsanto's trademark, that its acts constituted unfair competition, and that it had

acted "wilfully with full knowledge of plaintiff's rights and as part of a pre-conceived plan to trade upon plaintiff's goodwill." He granted a permanent injunction and awarded $15,877.88 legal fees. However, he found that Monsanto had failed to prove that it had sustained any damage, and he concluded that an accounting could not be allowed since the parties are not competitors; this latter conclusion he regarded as being required by our decisions in Admiral Corp. *v.* Penco, Inc., 203 F. 2d 517 (2 Cir. 1953) and Triangle Publications, Inc. *v.* Rohrlich, 167 F. 2d 969 (2 Cir. 1948).

Both parties appeal. Perfect Fit objects to the award of legal fees on two grounds: first, since prior to trial it had proposed a consent decree as broad as the injunction ultimately ordered by Judge McLean, Monsanto gained nothing from the trial and was in fact an unsuccessful litigant; and, second, that the award is excessive. Monsanto's appeal attacks both Judge McLean's finding that it has not adequately proved damages and his conclusion that an accounting is unavailable since the parties are not competitors.

We affirm Judge McLean's refusal to award damages. However, we hold that an accounting should be allowed on the facts of this case, and we overrule Admiral Corp. *v.* Penco, Inc., *supra,* and Triangle Publications, Inc. *v.* Rohrlich, *supra,* so far as they are inconsistent with our holding in the present case. We therefore remand for an accounting of the defendant's profits resulting from its infringement of the Acrilan trademark.

With respect to the defendant's appeal, since the relief ultimately granted will go beyond that offered by the defendant in settlement prior to the trial, we do not reach the question whether an award of legal fees would otherwise have been improper. We find that the legal fees awarded for the litigation prior to this appeal are reasonable in amount; we leave for determination by the district court on remand whether a further allowance should be

made for the expenses incurred on remand. We also allow Monsanto $1,500 for legal expenses on this appeal.

I. The Rationale for an Accounting.

Consideration of the principles which we think should govern the award of an accounting in the present case must begin with §35 of the Lanham Act, 15 U. S. C. §1117, which provides for the award of damages and accounts for the infringement of marks registered under the Act. The trademark plaintiff is entitled under §35 to recover, "subject to the principles of equity,"

> "(1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action * * * In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty."

On its face, §35 would seem to give a district court the broadest kind of discretion in tailoring the plaintiff's recovery, whether in damages or by way of an accounting, to the facts of the particular case. Compare Trade-Mark Act of 1905, §19, 33 Stat. 729. So far as accountings are concerned, however, recourse to this broad discretion has been considered by a number of courts, including this one, to be limited by the nature of the right asserted by the trademark plaintiff.

The more narrow view of the right has been that it is merely a means of protecting a businessman from injury resulting from another's use of his mark. Durable Toy & Novelty Corp. *v.* J. Chein & Co., 133 F. 2d 853 (2 Cir.), cert. denied, 320 U. S. 211, 63 S. Ct. 1447, 87 L. Ed. 1849 (1943). Injunctive relief may be warranted by the mere possibility of such injury, but a monetary award, whether in the form of damages or an accounting, is justified only to the extent that injury is shown already to have been suffered. This has been the conventional view, see Note, 1963 Wash. U. L. Q. 243, and it is the view underlying the decisions of this court relied on by Judge McLean in this case.

There is nothing in this view of the trademark right which entitles the plaintiff to the infringer's profits as such. An accounting has been thought proper only as an indirect measure of the plaintiff's injury, that is, only if some relationship between the infringer's profits and the plaintiff's injury can be inferred. As a result accountings have been limited to cases in which the parties are competing for trade and the defendant's trade may thus be presumed to have been diverted from the plaintiff. This is the rule adopted by the Restatement of Torts, §747.

An alternative view of the trademark right is that it is a form of property, similar in this respect to a copyright or patent right. Taking this view, the justification for an accounting is found in the principles of unjust enrichment traditionally applicable where property is used for profit without the owner's permission, and, if the view is carried to its logical conclusion, an accounting should be awarded automatically in most cases. In particular, since the accounting is not dependent upon presumed injury to the plaintiff, it is irrelevant that the plaintiff was not selling in the market exploited by the infringer. See the discussion of patent and copyright accountings in Sammons *v.* Colonial Press, Inc., 126 F. 2d 341, 344-346 (1 Cir. 1942).

There is direct support for the property right view in the decision of the First Circuit in Baker *v.* Simmons Co.,

325 F. 2d 580, 582 (1963),[2] and more ambiguous support in decisions of the Tenth[3] and Third[4] Circuits. It also is supported by the language of the Supreme Court in Hamilton-Brown Shoe Co. *v.* Wolf Bros. & Co., 240 U. S. 251, 259, 36 S. Ct. 269, 272, 60 L. Ed. 629 (1916):

> "The right to use a trademark is recognized as a kind of property, of which the owner is entitled to the exclusive enjoyment to the extent that it has been actually used [Citations omitted.] The infringer is required in equity to account for and yield up his gains to the true owner, upon a principle analogous to that which charges a trustee with the profits acquired by wrongful use of the property of the *cestui que trust.*"

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[2] A portion of the defendant's business was competitive with the plaintiff but a substantial portion—about 40 per cent—was not. The court upheld an accounting as to the profits from the entire business.

[3] Blue Bell Co. *v.* Frontier Refining Co., 213 F. 2d 354, 362-363 (10 Cir. 1954). The parties were both gasoline distributors but in different states. The decision at least stands for the rule, discussed later in this opinion, that an accounting may be allowed where the parties market the same product in different geographical areas; and the court's reference to "consuming market" and "trade territory" (1949), accounting approved on appeal and its citation of Dad's Root Beer Co. *v.* Doc's Beverages, Inc., 193 F. 2d 77 (2 Cir. 1951), as supporting authority suggest that the decision stands for no more than this. On the other hand, the accounting was expressly grounded on "the equitable principle of unjust enrichment, not the legal theory of provable damages," and Dad's Root Beer was bolstered by citation of copyright accounting cases.

[4] See Century Distilling Co. *v.* Continental Distilling Corp., 86 F. Supp. 503 (E. D. Pa. from subsequent order, 205 F. 2d 140 (3 Cir.), cert. denied, 346 U. S. 900, 74 S. Ct. 226, 98 L. Ed. 400 (1953). The plaintiff and defendant sold a "cheap whiskey" and a "quality gin" respectively, 205 F. 2d at 144. It is not clear whether the district court regarded the competition between the two as sufficient, even though not direct, or whether it simply did not consider competition to be necessary for an accounting. The Third Circuit approved the accounting without expressly considering this problem.

Since the parties in Hamilton-Brown were competitors, the implications of the Court's language were not tested,[5] however, and Champion Spark Plug Co. *v.* Sanders, 331 U. S. 125, 67 S. Ct. 1136, 91 L. Ed. 1386 (1947), subsequently established that competition between the parties at least does not automatically entitle the trademark plaintiff to an accounting.

II. The Prior Decisions of This Court.

This court has rejected in explicit terms the view that a trademark right is a form of intangible property, Durable Toy & Novelty Corp. *v.* J. Chein & Co., *supra,* and has also rejected the argument that the broad language of §35 allows a district court to award an accounting where the parties are not competitors. Admiral Corp. *v.* Penco, Inc., *supra,* 203 F. 2d at 521; Triangle Publications, Inc. *v.* Rohrlich, *supra,* 167 F. 2d at 974. The rationale for this interpretation was that §35 allows accountings "subject to the principles of equity," which were considered in Admiral and Triangle Publications to include the requirement that the parties be competitors.

While this court has required that the parties market similar products, Admiral Corp. *v.* Penco, Inc., *supra;* Triangle Publications, Inc. *v.* Rohrlich, *supra,* it has not required that they market their products in the same geographical area. Maternally Yours, Inc. *v.* Your Maternity Shop, Inc., 234 F. 2d 538, 545 (2 Cir. 1956); Dad's Root Beer *v.* Doc's Beverages, 193 F. 2d 77, 82-83 (2 Cir. 1951). The genesis of this distinction was in Dad's Root Beer. The plaintiff marketed Dad's Old Fashioned Root Beer in the Chicago area and sold franchise rights and concentrate

[5] Both parties manufactured shoes and there were areas in which both sold. However, it appears that there also were some states in which the defendants but not the plaintiffs sold. See *Lawrence-Williams Co.* v. *Societe Enfants Gombault,* 52 F. 2d 774, 777 (6 Cir. 1931). The possible implications of the fact that an accounting was nevertheless allowed as to the defendant's entire profits are discussed below.

for other parts of the country. The defendant operated in the New York area, where it had at first marketed Dad's Root Beer under a franchise from the plaintiff but later began to market its own product, Doc's Old Fashioned Root Beer. Although the parties did not directly compete as to beverage sales, the district court ordered an accounting of the defendant's profits from such sales, and this court affirmed. Judge Clark wrote:

> "As the district judge pointed out, it is well settled in equity that a trademark infringer is liable as trustee for profits accruing from his illegal acts, even though the owner was not doing business in the consuming market where the infringement occurred. [Citations omitted.] * * * True, recovery of defendant's profits seems thus far to have been associated with the working hypothesis that they are a valid measure of plaintiff's lost sales. [Citations omitted.] This affirmation does not of itself require the negative, however—that without direct competition in the same geographic area there can be no recovery of profits. We think the force of the precedents cited, re-enforced by the widely quoted and applied federal rule, leads to the contrary conclusion.
>
> For it is well settled that the Court 'will endeavor to adapt its relief to the general equities of the particular situation, as nearly as it is possible to do so,' in designing relief for unfair competition * * * Here, * * * mutual dealings and a contractual business relationship existed prior to an unexcused program of palming off which was intended to, and did, result in purchase-confusion. Of course, plaintiff also had the loss of its franchise commissions and concentrate sales which it was enjoying until defendants substituted spurious 'Old Fashioned' root beer for the trademarked product. Moreover, plaintiff suffered through the possible deterioration of its advertising effectiveness by the appearance on the public market of a similarly named, but separate, product of the

> same substantial make-up. A limitation of plaintiff's remedies to an injunction against further appropriation of its labels, devices, and advertising good will, leaving to the defendants the actual profits made through their wrongful acts, would be inequitable and contrary to the general state [sic] principles." Id. at 82-83.[6]

In the opinion of this Court and of the district court in Dad's Root Beer three cases are cited for the proposition that an accounting may be ordered where the parties sell similar products in different areas but not where they sell different products: Hamilton-Brown Shoe Co. *v.* Wolf Bros. & Co., *supra;* Lawrence-Williams Co. *v.* Societe Enfants Gombault, 52 F. 2d 774 (6 Cir. 1931); and L. P. Larson, Jr. Co. v. William Wrigley, Jr. Co., 20 F. 2d 830 (7 Cir. 1927), rev'd on another point, 277 U. S. 97, 48 S. Ct. 449, 72 L. Ed. 800 (1928). Whether these cases stand for any such general rule is at least highly doubtful. There is no hint of the product market-geographical market distinction in the Hamilton-Brown opinion; the Supreme Court referred only to recovery on an unjust enrichment theory. The court in Lawrence-Williams, however, offered in dicta an interpretation of Hamilton-Brown which differed from the Supreme Court's language. It observed that the Hamilton-Brown briefs and record revealed that there were states in which the defendant sold but the plaintiff did not. Since all of the defendant's profits were included in the accounting, the Lawrence-Williams court inferred that,

> "The principle seems to be that as to territory unreached by plaintiff's trade, it may be inferred that there was a latent demand for plaintiff's goods which it would eventually have supplied, except for

[6] Although Judge Clark wrote for the court in the quoted passage, the other two judges on the panel did not join in an earlier part of the opinion, in which Judge Clark expressed his view that the Lanham Act was applicable. All agreed, however, that the same result would follow under either federal or state law. 193 F. 2d at 82.

the infringement, and hence it has sufficient equitable right to the infringer's profits." Id. 52 F. 2d at 777.

Lawrence-Williams stands only as a somewhat questionable interpretation, in dicta, of Hamilton-Brown; the interpretation is justified only if it is assumed that the Supreme Court allowed the accounting on the theory that it measured diversion of trade and not on the theory of unjust enrichment to which its opinion referred. The Seventh Circuit in L. P. Larson, on the other hand, did expressly allow an accounting for areas in which the defendant but not the plaintiff was selling. However, the court did not draw a general distinction between geographical separation and product differentiation; rather it found that the defendant's predatory business tactics had prevented the plaintiff from expanding, and it therefore held that, "under the very exceptional circumstances here appearing," it would be inequitable to deny an accounting simply because the plaintiff had been unable to extend its sales into all of the areas in which the defendant sold.

At the least, the product market-geographical market distinction can hardly be said to be well-established in the law of trademarks. Nor does the distinction derive much support from the rationale of Dad's Root Beer itself. Since Judge Clark justified the accounting by enumerating various injuries which the plaintiff suffered or may have suffered—loss of franchise commissions, loss of concentrate sales, deterioration of advertising effectiveness—the rationale is in theory consistent with the view that an accounting is justified only as compensation, although it is not consistent with § 747 of the Restatement of Torts. However, there apparently was no direct proof that any of these injuries was in fact suffered, much less that they approximated in amount the defendant's profits.[7] And, more important, the rationale has little if anything to do with any

[7] The plaintiff had waived its right to prove damages "other than those resulting from profits which may have been made by the defendants." 94 F. Supp. 121 (S.D.N.Y. 1950).

distinction between product and geographical markets; the same arguments could have been advanced in favor of an accounting if the plaintiff had not been distributing root beer anywhere in the country but was merely selling franchises and concentrate.

III. The Need for an Accounting.

The prior decisions of this court thus rest on two divergent lines of reasoning, divided as to their application by a line which has little to do with either. On one hand there are Durable Toy, Triangle Publications, and Admiral, which would allow an accounting only where a diversion of sales may reasonably be inferred. On the other hand there are Dad's Root Beer and Maternally Yours, which refer to the traditional discretion of a court of equity in adopting its relief to the case before it.

We conclude that the latter rationale is the proper one under § 35 of the Lanham Act. That this rationale accords better with the language of § 35 is evident, and it is further supported by comparison of § 35 with the less generous language of its predecessor, § 19 of the Trade-Mark Act of 1905, 33 Stat. 729.[8] We also think that it is more suited to the general purposes of the Lanham Act.

In enacting the Lanham Act, Congress observed that any trademark statute had a twofold purpose:

> "One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats." S.Rep. No. 1333, 79th Cong., 2d Sess. 1-2 (1946), in U. S. Code Cong. Serv. 1274 (1946).

[8] Section 19 empowered a trial court in its discretion to award up to treble damages, but, unlike § 35, it did not expressly confer a similar power to vary the amount recovered in an accounting.

We think is doubtful whether even the second of these purposes, protection of the trademark owner, is adequately served by a rule which would allow accountings only where the parties directly compete. To have proved directly that the reputation of its Acrilan trademark was injured by Perfect Fit's activities, Monsanto would have been required first to trace the pads from Perfect Fit through the retailer to their ultimate purchasers and then to introduce, in some manner or another, the testimony of a sampling of these purchasers in court. Cf. Zippo Mfg. Co. *v.* Rogers Imports, Inc., 216 F. Supp. 670 (S.D.N.Y. 1963) (use of opinion poll). Whether Monsanto tried to obtain such evidence and failed or simply did not try does not appear. However, it seems obvious that there must have been some economic injury to Monsanto, such as loss of sales to legitimate producers and the loss of the goodwill of some of the retail purchasers of Perfect Fit's inferior "Acrilan" mattress pads.

In any event, whatever may be the merit of the narrow rule regarding accountings so far as the trademark owner is concerned, the narrow rule is entirely inadequate to protect the interest of the public. Because the amount involved in a single purchase may be small—here $3.98 for a mattress pad—the ultimate purchaser almost never brings suit even in so blatant a case of deception as here, and the public must depend for protection on the private actions brought by trademark owners.[9] While private actions such as this do not compensate those who purchased the infringer's product, they can deter future infringements by imposing a money judgment on the defendant. The principal defect of the § 747 rule is that it does nothing to render infringement unprofitable in cases such as this. The plaintiff is unable to offer satisfactory proof of its injury, and, so long as the defendant does not infringe the trademark of a direct competitor, it can retain its profits.[10]

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[9] The Lanham Act does not provide criminal penalties for trademark infringement. See 15 U. S. C. §§ 1114-1120.

[10] In fact, Monsanto is already considerably out of pocket in prosecuting this action. Its actual expenses have amounted to about approximately $90,000, of which only about $16,000 was covered by the district court's award for legal expenses.

There can be no doubt as to the need for deterrence in cases such as this. Perfect Fit has, it appears, taken up trademark infringement as its principal line of business. In at least three other instances it has carried out schemes similar to its misuse of the Acrilan trademark. It may be said to be a commercial racketeer. We quote from Judge McLean's findings, based on uncontradicted evidence:

> "In 1957 defendant entered into a contract with Celanese Corporation of America which authorized defendant to use the trade-mark 'Celacloud' on mattress pads '* * * only when the stuffing material in the goods is 10% Type F acetate staple manufactured by or for Celanese * * *'. Subsequently, Celanese purchased and tested two of defendant's mattress pads labeled 'Celacloud' without reference to any other fibers, and discovered that neither contained 100% Type F Celanese acetate, but that one contained 50% waste material and one 29.64% rayon. In view of the tests, Celanese terminated the agreement and demanded that defendant recall from its customers all 'Celacloud' labeled products. Defendant replied to Celanese that the alleged failure could have only occurred through inadvertence of an employee of the Carolina Manufacturing Company. Subsequently, Celanese purchased and tested one more of defendant's mattress pads and found it to be materially adulterated. Thereupon Celanese instituted an action against defendant in the Supreme Court of New York and moved for a preliminary injunction. Defendant then consented to a judgment without payment for any damages sustained by Celanese or an accounting of its profits.
>
> "After entry of the consent injunction in the Celanese case early in 1958 and the preliminary injunction in this case late in 1958, defendant in 1959 marketed mattress pads labeled 'DuPont nylon filled' and 'All new materials consisting of synthetic fibers.' The Better Business Bureau investigate these mattress

pads and found that they contained no nylon whatsoever and 59.2 per cent cotton which is not a synthetic fiber.

"Beginning in 1958 and continuing into 1963, defendant marketed mattress pads with labels reading: 'Filling 100% Estron' or 'All 'Estron' Acetate Filling Fiber,' 'Estron' being the trademark of Tennessee Eastman Company for its acetate fiber. Plaintiff's analytical tests on two of these pads established that the pads contained less than 60 per cent acetate."

We do not hold that it is relevant whether the parties are in direct competition; compensation for diverted trade is one important purpose which an accounting may serve. To restrict accountings to this single purpose, however, fails to take account of the other purposes served by the trademark law. Under the circumstances of this case, a judgment limited to an injunction is clearly inadequate to deter those who deliberately engage in commercial piracy which defrauds thousands of consumers and injures a trade name built up at considerable cost by legitimate means.

The judgment of the district court is reversed and the case is remanded for an accounting.[11]

MOORE, Circuit Judge (concurring and dissenting):

Although I concur in the result, namely, that the case should be reversed and remanded, I cannot subscribe to the reasons advanced by the majority for so doing or the limited relief granted, i. e., "an accounting of the defendant's profits." From the facts as found by the trial court, I have no hesitation in concluding that defendant should be required to respond to such damages within the trial court's discretion as may be justified by the proof. The trial court itself might well have reached this result had it not felt bound by decisions of this court which it interpreted as holding "that in such a situation [where the parties are not

[11] All the active circuit judges have been advised of this opinion and no one of them has requested in banc consideration.

competitors] an accounting of profits may not be allowed * * * ." Accordingly, the court concluded (Concl. of Law 7), "Since the parties are not competitors, plaintiff is not entitled to an accounting of defendant's profits."

I find nothing in the statute, 15 U. S. C. A. §1117 (§35, Lanham Act) which premises recovery upon the existence of a competitive situation. A plaintiff is specifically entitled "to recover (1) defendant's profits" and is told that he need "prove defendant's sales only," leaving to the defendant to "prove all elements of cost or deduction claimed." In addition, a plaintiff may recover "(2) any damages sustained by the plaintiff." Thus, if a defendant were to prove slight profit or none, the plaintiff might gain a hollow victory. However, "damages sustained" might be established on some factual basis or theory other than "defendant's profits." For example, would it be too farfetched to hold defendant here to its statements to the public that its mattress pads were filled with "acrilan"? If equity would now do that which ought to have been done, plaintiff might have as damages its profit on "acrilan" sales to defendant in such quantities as would have been necessary to fill the pads with genuine "acrilan" and not floor sweepings and waste material or damages on the theory of unjust enrichment. Furthermore, the statute permits the court, if "the amount of the recovery based on profits is either inadequate or excessive," in its discretion to "enter judgment for such sum as the court shall find to be just, according to the circumstances of the case." Therefore, on remand the trial court should be free to enter a judgment upon such equitable basis as may be warranted by the proof.

In Admiral Corporation *v.* Price Vacuum Stores (E. D. Pa. 1956), 141 F. Supp. 796, 801, the court commented that:

> "It seems scarcely equitable, however, for an infringer to reap the benefits of a trademark he has stolen, force the registrant to the expense and delay of litigation, and then escape payment of damages on the theory that the registrant suffered no loss. To impose on the infringer nothing more serious

than an injunction when he is caught is a tacit invitation to other infringement."

In Blue Bell Co. *v.* Frontier Ref. Co., 213 F. 2d 354, 363 (10th Cir. 1954), the court stated that "recovery is predicated upon the equitable principle of unjust enrichment, not the legal theory of provable damages." That decision has since been cited approvingly by this court in Maternally Yours, Inc. *v.* Your Maternity Shop, 234 F. 2d 538, 545 (2d Cir. 1956). See also 4 Callman, Unfair Competition and Trade-Marks 1860 & n. 74 (2d ed. 1950). Thus, the fact that plaintiff was not in direct competition with defendant or may not have lost sales directly to defendant is not so relevant to the propriety of an accounting of profits as they are to an award of damages. Compare Vandenburgh, Trademark Law and Procedure 386 & n. 17 (1959), with id. 385 & n. 11.

Plaintiff undoubtedly has been adversely affected by defendant's unlawful infringement. Defendant, in turn, has made sales of mattress pads and at least to this extent has unjustly enriched itself. Equity requires that the barrier, if such it be, of the Rohrlich and Penco cases be surmounted. The law must keep pace with industrial and economic reality. Today products sold on a nationwide basis contain scores of component parts manufactured by others. In the textile and synthetic fiber field particularly, chemical and textile companies produce fibers under such trademarked names as "nylon," "dacron," "orlon," "caprolan," "creslan," "kodel," "lycra," and many others, which are not sold to the purchasing public as such but are important and well-advertised ingredients of many household articles and articles of apparel.

Wherever equity is the basis for relief, each case must, of necessity, be decided on its own facts and damages measured accordingly. The unjust enrichment may be the defendant's profits. The damages sustained by plaintiff may be gauged by the profit it would have made had "acrilan" actually been used in the pads sold. No for-

mula should be decreed which would lessen the trial court's discretion as to how best to achieve a fair award. Our present task is to remove the barrier which the trial court felt existed and to try to set up certain directional arrows.

I find it unnecessary to overrule cases previously decided based upon facts differing from those here presented. Nor, in my opinion, is there any need to consider or discuss "product market—geographical market" distinctions. No facts giving rise to these questions are before us in this case.

I, therefore, concur in reversal and remand, but dissent from the limitation of remand merely "for an accounting of defendant's profits."

Judgment of the Court of Appeals.

UNITED STATES COURT OF APPEALS,

FOR THE SECOND CIRCUIT.

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the twenty-eight day of July one thousand nine hundred and sixty-five.

Present:

HON. J. EDWARD LUMBARD,
Chief Judge,

HON. LEONARD P. MOORE,
HON. THURGOOD MARSHALL,
Circuit Judges.

MONSANTO CHEMICAL COMPANY, Successor by Merger to The Chemstrand Corporation,
Appellee-Appellant,
(Plaintiff),

v.

PERFECT FIT PRODUCTS MANUFACTUING CO., INC.,
Appellant-Appellee,
(Defendant).

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the judgment of said District Court be and it hereby is reversed and that the action be and it hereby is remanded to said District Court for an accounting of the defendant's profits resulting from its infringement of the Acrilan trademark in accordance with the opinion of this Court with costs to the appellee-appellant Monsanto Chemical Company,

It is further ordered, adjudged and decreed that $1500 for legal expenses on this appeal be and it hereby is allowed to said appellee-appellant.

A. DANIEL FUSARO,
Clerk.

Order of the Court of Appeals Denying Rehearing.

UNITED STATES COURT OF APPEALS,

SECOND CIRCUIT.

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Court House, in the City of New York, on the twenty-sixth day of August, one thousand nine hundred and sixty-five.

Present:

Hon. J. EDWARD LUMBARD,
Chief Judge,

Hon. LEONARD P. MOORE,
Circuit Judge.

MONSANTO CHEMICAL COMPANY, Successor by Merger to The Chemstrand Corporation,
Appellee-Appellant,
(Plaintiff)

v.

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Appellant-Appellee.
(Defendant)

A petition for a rehearing having been filed herein by counsel for the appellant-appellee Perfect Fit Products Manufacturing Company,

Upon consideration thereof, it is

Ordered that said petition be and hereby is denied.

A. DANIEL FUSARO,
Clerk.

By VINCENT A. CARLIN,
Chief Deputy Clerk.

Section 35 of the Lanham Act
(15 U. S. C. Sec. 1117)

When a violation of any right of the registrant of a mark registered in the Patent Office shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty.

Rule 68 of the Federal Rules of Civil Procedure

RULE 68. OFFER OF JUDGMENT

At any time more than 10 days before the trial begins, a part defending against a claim may serve upon the adverse party an offer to allow judgment to be taken against him for the money or property or to the effect specified in his offer, with costs then accrued. If within 10 days after the service of the offer the adverse party serves written notice that the offer is accepted, either party may then file the offer and notice of acceptance together with proof of service thereof and thereupon the clerk shall enter judgment. An offer not accepted shall be deemed withdrawn and evidence thereof is not admissible except in a proceeding to determine costs. If the judgment finally obtained by the offeree is not more favorable than the offer, the offeree must pay the costs incurred after the making of the offer. The fact that an offer is made but not accepted does not preclude a subsequent offer.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No. 937

MONSANTO CHEMICAL COMPANY,
Successor by Merger to
THE CHEMSTRAND CORPORATION,
Cross-Petitioner,

vs.

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Cross-Respondent.

CROSS PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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No.

IN THE

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MONSANTO CHEMICAL COMPANY,
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Cross-Respondent.

CROSS PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

TO THE HONORABLE THE CHIEF JUSTICE AND THE ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES:

Cross-Petitioner (hereinafter referred to as "Monsanto") respectfully asks that a writ of certiorari be issued to review the opinion and mandate of the United States Court of Appeals for the Second Circuit, in so far as it affirmed that part of the judgment of the United States District Court for the Southern District of New York refusing to award damages to Monsanto and limiting the recovery on remand only to "defendant's profits".

Opinions Below

The District Court's opinion after trial is printed in Cross-Respondent's main brief in the Court of Appeals

(R-28a-33a)* and is officially reported at 232 F. Supp. 493 (1964). The opinion of the District Court after the hearing on legal fees and expenses is also printed in said appendix (R-6a-10a) but has not been reported. The District Court's Findings of Fact and Conclusions of Law are printed in the Appendix hereto (B-7-B-22). The opinion of the Court of Appeals affirming in part and reversing in part the District Court's opinion is printed in the Appendix hereto and is reported at 349 F.2d 389 (1965) (B-23-B-41).

Statement of Jurisdiction

The judgment of the Court of Appeals was entered on July 28, 1965 (B-42); and its order denying rehearing was entered on August 26, 1965 (B-44); Mr. Justice Harlan granted an extension of time until January 22, 1966 to file this cross-petition (B-45). Cross-Respondent (hereinafter referred to as "Perfect Fit") filed its petition for writ of certiorari on November 24, 1965. The jurisdiction of this Court is invoked under 28 U. S. C. Section 1254(1).

Questions Presented

Section 35 of the Lanham Act, 15 U. S. C. Section 1117, provides that in a trademark infringement action the successful plaintiff may recover, subject to the principles of equity: (a) the defendant's profits, (b) any damages sustained by the plaintiff, and (c) the costs of the action. This section further provides that such profits and damages may be increased or decreased in the discretion of the court.

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* The parenthetic references used herein have the following meaning: (B-) refers to pages in the Appendix to this cross petition; (R-) refers to pages in the Appendix to Perfect Fit's Main Brief on appeal below; (X-) refers to pages in the Appendix to Monsanto's Main Brief on appeal below.

There are two questions presented by the decision of the Court of Appeals to which this cross petition is directed:

(a) Did the Court of Appeals err in refusing to award any damages where it had expressly found that Monsanto had been injured by the infringement of its trademark by Perfect Fit?

(b) Has the mandate of the Court of Appeals to the District Court placed undue restrictions upon the District Court in computing Monsanto's recovery, restrictions which are not found in and, in fact, which are in conflict with Section 35 of the Lanham Act?

The Statute Involved

The statute here involved is the Lanham Act and particularly Section 35 of the Act, 15 U. S. C. Section 1117, which section is printed in the Appendix hereto (B-6).

The Statement of the Case

Monsanto manufactures acrylic fibers which it sells under the registered trademark "Acrilan". These fibers are used, *inter alia,* in the manufacture of quilted products, such as coverlets, mattress pads and in the manufacture of blankets for use as bedding (B-8).

Perfect Fit sells bedding items, including mattress pads, bedspreads and coverlets, which are manufactured for it by its wholly-owned subsidiary, Carolina Manufacturing Co. (B-11).

In 1958, Perfect Fit embarked upon a course of deliberate infringement of the "Acrilan" trademark by selling to the trade mattress pads bearing the "Acrilan" trademark without license from the trademark owner. An exemplar of the blatant appropriation of the "Acrilan" trademark is attached hereto (B-1).

Upon notification that the mattress pads with the misappropriated trademark were on the market, Monsanto purchased a number of the pads and tested them. All of these pads labeled as "Acrilan" mattress pads contained less than 25% of acrylic fiber and some contained none whatsoever. The rest of their fill consisted of cotton, acetate, nylon and other fibers, mixed in various proportions. Some of the fibers were second-hand waste materials, such as fibers from floor sweepings, which contained considerable amounts of dust (B-12, B-13).

The labels on the pads claimed that the pads were "completely sanforized to prevent shrinkage" and "allergy-dust-proof-mothproof-will not mildew" (B-1). Each of these claims was false (B-15). In addition, the covers for the pads, as the District Court found, were made of:

> "cheap, poor quality cloth, low in thread count and heavily sized with 30 percent by weight starch and talc to give the appearance of good quality cloth. As evidenced by before and after washing specimens, the sizing rinsed out with a single washing leaving a dust-porous, rough fabric having an inferior appearance." (B-13)

On July 25, 1958, Perfect Fit admitted the mislabeling and, on Monsanto's insistence, supplied what purported to be a list of the customers for the pads. In fact, however, the largest customer was not on the list (B-18).

The parties again conferred in August, 1958, and Perfect Fit proposed to manufacture a nylon-Acrilan pad, so labeled. Nothing came of this, however, and Monsanto brought suit in November, 1958, in the Southern District of New York, alleging infringement of its trademark and unfair competition. In December, 1958, a preliminary injunction was granted on Monsanto's motion (B-26, R-6a).

At the trial, Monsanto placed in evidence a stipulation of undisputed facts showing that the defendant had ordered

80,000 polyethylene bags or bag inserts bearing Monsanto's trademarks and that defendant could show written account for the destruction of none of the 80,000 (X-2b). Monsanto also placed in evidence information as to the amount of fiber fill that would be used in the average mattress pad (X-5b); the cost of Acrilan acrylic fiber and the cost of the fiber fill actually used by the defendant (X-11b-12b).

The trial court found that Perfect Fit had infringed Monsanto's trademark, that its acts constituted unfair competition, and that it had acted "willfully with full knowledge of plaintiff's rights and as part of a preconceived plan to trade upon plaintiff's goodwill" (B-16). The trial court granted a permanent injunction and awarded $15,877.88 as costs and attorneys' fees.

The trial court denied Monsanto's prayer for an award of damages and for an accounting of defendant's profits.

Both parties appealed. The majority opinion of the Court of Appeals for the Second Circuit written by Chief Judge Lumbard did not discuss the refusal of the District Court to award damages and in one sentence affirmed the trial judge on this point. The Court of Appeals found that Perfect Fit had embarked on an intentional and fraudulent campaign to infringe Monsanto's trademark and by such infringement had injured Petitioner and its trademark and had defrauded the public (B-24, B-38). It thereupon remanded the case to the trial court for an "accounting of defendant's profits" (B-38, B-43). In addition, the Court of Appeals affirmed the award of legal fees and costs and made an additional award to petitioner for its legal expenses on the appeal.

The Reason for Allowance of the Writ

The Decision of the Court Below is in Direct Conflict with Prior Decisions of this Court and of Prior Decisions of the Court of Appeals for the Second Circuit.

A. The Court Below Improperly Refused to Award Damages Even Though Monsanto Proved its Injury

The Court of Appeals for the Second Circuit disregarded the previous holdings of this Court as well as prior precedent in the Second Circuit in refusing to award damages to Monsanto even though it recognized that Monsanto had been injured.

The District Court below entered no finding of fact as to Monsanto's damages. It did, however, enter a conclusion of law that "Plaintiff has not proved that it sustained any damage by reason of defendant's infringement" (B-22). The District Court also concluded in its opinion accompanying its findings of fact and conclusions of law that "Even if it could reasonably be inferred from the evidence that some damage occurred, there is nothing upon which I could properly base a finding as to its amount". Monsanto freely admitted that its injury in terms of lost sales and damage to its goodwill due to Perfect Fit's sales of inferior products were not subject to quantitative proof. Monsanto urged the court below that this was clearly no basis for the refusal to award damages when it was evident that Monsanto had been injured and there was a reasonable and related basis for computing monetary damages. Although Monsanto had presented to the District Court a suitable basis for such an award as determined by the Court of Appeals in *Deering Milliken & Co.* v. *Gilbert* (2 Cir. 1959), 269 F.2d 191, a case strikingly similar to the present case, the District Court found it "not at all analogous". The District Court then refused to award any damages to Monsanto.

On appeal the Court of Appeals in effect reversed the District Court and found that there "must have been some economic injury" to the respondent and "injury to its trade name" (B-36, B-38). In spite of this holding, the Court of Appeals, in one sentence, affirmed the refusal to award damages thereby dismissing Monsanto's cross-appeal on this point.

Thus, in effect, the Court of Appeals reversed the basis for the District Court's refusal to award damages (no injury to Monsanto), but neglected to also reverse the result of such holding (no damages to be awarded Monsanto) thereby impliedly adopting the District Court's reasoning that it had no proper basis for finding the amount of damages.

This Court stated in *Anderson v. Mt. Clemens Pottery Co.* (1945), 328 U. S. 680, 688:

> "The employer cannot be heard to complain that the damages lack the exactness and precision of measurement that would be possible had he kept records in accordance with the requirements of § 11(c) of the Act. And even where the lack of accurate records grows out of a bona fide mistake as to whether certain activities or non-activities constitute work, the employer, having received the benefits of such work, cannot object to the payment for the work on the most accurate basis possible under the circumstances. Nor is such a result to be condemned by the rule that precludes the recovery of uncertain and speculative damages. *That rule applies only to situations where the fact of damage is itself uncertain.* But here we are assuming that the employee has proved that he has performed work and has not been paid in accordance with the statute. *The damage is therefore certain. The uncertainty lies only in the amount of damages arising from the statutory violation by the employer. In such a case 'it would be a perversion of fundamental principles of justice to deny all relief to the injured person, and thereby relieve the wrongdoer from making any amend for his acts.' Story Parchment Co.*

v. *Paterson Co.*, 282 U. S. 555, 563. It is enough under these circumstances if there is a basis for a reasonable inference as to the extent of the damages. *Eastman Kodak Co.* v. *Southern Photo Co.*, 273 U. S. 359, 377-379; *Palmer* v. *Connecticut R. Co.*, 311 U. S. 544, 560-561; *Bigelow* v. *RKO Radio Pictures*, 327 U. S. 251, 263-266." (Emphasis Added)

The trial court in *Deering Milliken & Co.* v. *Gilbert* (2 Cir. 1959), 269 F.2d 191, a case of a bad-faith infringer of a fiber trademark as in the present case, relying upon the *Anderson* decision received the following proof by the plaintiff of its damages, as noted by the Court of Appeals (269 F.2d 191, 193):

> "First it attempted to establish the number of tags that were in Gilbert's possession at the time of the police seizure in May 1959, and from this it asked the trial judge to infer that the balance of the tags were used by Gilbert. Expert testimony was then introduced which established that one tag is used in connection with the sale of one garment lining and that one garment lining contains two and one-half yards of the special *Milium* fabric. On this evidence, Judge Palmieri found that the missing hang tags represented 80,750 yards of fabric which had probably been sold to the public as *Milium* fabric under the *Milium* trademark. Multiplying this figure by the minimum royalty received by Deering Milliken (seven and one-half cents per yard) he arrived at the contested $6,056.25 amount."

The Court of Appeals affirmed this method of proof (269 F.2d 191, 193):

> "Under the circumstances, we think this method of proof was proper. At the trial, when called as a witness for the plaintiff, Gilbert was patently evasive: he denied any palming off and cloaked his answers by a short memory. When the plaintiff rested, the trial judge stated that the witness was unworthy of belief. At this point, the burden of going forward with evidence to refute the plaintiff's estimates of sales passed to Gilbert. His failure and refusal to produce the most satisfactory evidence of

> sales—or absence of sales—leaves his cause exposed to indirect and less definite and certain methods of proof. Armstrong *v.* Belding Bros. & Co., 2 Cir., 297 F. 728, certiorari denied 265 U. S. 585, 44 S.Ct. 459, 68 L.Ed. 1192; Yesbera *v.* Hardesty Mfg. Co., 6 Cir., 166 F. 120, certiorari denied 214 U. S. 513, 29 S.Ct. 696, 53 L.Ed. 1063. And where, as here, the defendant controls the most satisfactory evidence of sales the plaintiff needs only establish a basis for a reasoned conclusion as to the extent of injury caused by the deliberate and wrongful infringement. Anderson *v.* Mt. Clemens Pottery Co., 328 U. S. 680, 688, 66 S.Ct. 1187, 90 L.Ed. 1515; Story Parchment Co. *v.* Patterson Parchment Paper Co., 282 U. S. 555, 51 S.Ct. 248, 75 L.Ed. 544; Gotham Silk Hosiery Co. *v.* Artcraft Silk Hosiery Mills, 3 Cir., 147 F.2d 209."

In the present case, as in *Deering Milliken,* Perfect Fit's failure to keep proper records and its destruction of others led to Monsanto's inability to prove dollar and cents damages.

The dissent by Circuit Judge Moore in the decision below voiced his disapproval of the refusal by the Court of Appeals to award damages stating that ". . . I have no hesitation in concluding that defendant should be required to respond to such damages within the trial court's discretion as may be justified by the proof." He stated his belief that the District Court might well have reached the conclusion that Monsanto should be awarded damages if it had not felt bound by the decisions of the Court of Appeals which it interpreted as holding "that in such a situation [when the parties are not competitors] an accounting of profits may not be allowed . . ."

Judge Moore then offered his suggested basis for the computation of damages which was not unlike that in *Deering Milliken* (B-39):

> "I find nothing in the statute, 15 U. S. C. A. § 1117 (§ 35, Lanham Act) which premises recovery upon

> the existence of a competitive situation. A plaintiff is specifically entitled 'to recover (1) defendant's profits' and is told that he need 'prove defendant's sales only,' leaving to the defendant to 'prove all elements of cost or deduction claims.' In addition a plaintiff may recover '(2) any damages sustained by the plaintiff.' Thus, if a defendant were to prove slight profit or none, the plaintiff might gain a hollow victory. However, 'damages sustained' might be established on some factual basis or theory other than 'defendant's profits.' For example, would it be too farfetched to hold defendant here to its statements to the public that its mattress pads were filled with 'acrilan'? If equity would not do that which ought to have been done, plaintiff might have as damages its profit on 'acrilan' sales to defendant in such quantities as would have been necessary to fill the pads with genuine 'acrilan' and not floor sweepings and waste material or damages on the theory of unjust enrichment. Furthermore, the statute permits the court, if 'the amount of the recovery based on profits is either inadequate or excessive,' in its discretion to 'enter judgment for such sum as the court shall find to be just, according to the circumstances of the case.' Therefore, on remand the trial court should be free to enter a judgment upon such equitable basis as may be warranted by the proof.''

The majority opinion below is thus in conflict with the prior decisions in that, where having found that Monsanto was injured, it refused to award damages because of the uncertainty in the amount.

B. The Court Below Erred in Limiting the Scope of the Recovery to an Accounting of Defendant's Profits

In ordering the recovery only of Perfect Fit's profits the Court of Appeals below effectively took away from the trial court its discretion under the statute (Section 35 of the Lanham Act) to tailor the award to the equities of the case (B-6).

The District Court believing itself precluded from an accounting of Perfect Fit's profits never had the oppor-

tunity of considering that portion of Section 35 that reads: "if the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case."

Now that the Court of Appeals has freed the District Court from its imagined restraint, it should also be free to fully apply the directives of the statute without being limited by a mandate ordering only an accounting of defendant's profits. The award or refusal of increased damages or profits is "a field for the peculiar play of discretion on the part of the trial judge . . ." *The Chesapeake and Ohio Railway Company* v. *Kaltenbach et al.* (4 Cir. 1941), 124 F.2d 375.

In *Mishawaka Rubber & Woolen Mfg. Co.* v. *S. S. Kresge Co.* (1942), 316 U. S. 203, where an improper restraint had been placed upon an accounting of defendant's profits by the Court of Appeals in limiting the sales to be included in the accounting, this Court ". . . deeming the matter to present an important question under the Trade-Mark Act" brought up the case for review of the provisions of the decree dealing with the measure of profits and damages. The decree of the Court of Appeals was there vacated because of its improper restraint in narrowly defining the scope of the accounting of profits.

Similarly, this case presents an opportunity to allow this Court to affirm the doctrine that the equitable power of the District Court under the Lanham Act should not be narrowly circumscribed to the detriment of equity.

Conclusion

For the foregoing reasons, this cross-petition for a writ of certiorari should be granted.

Respectfully submitted,

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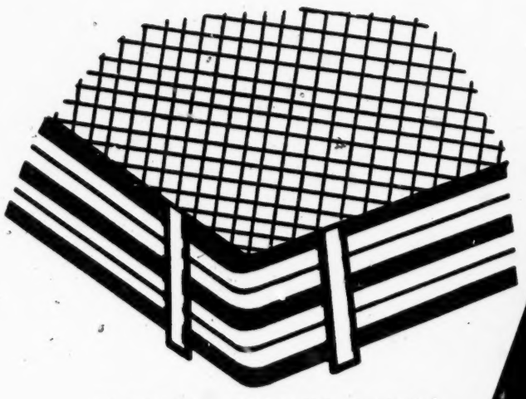
Photolithograph of Defendant's "A-Acrilan" Label (PX 10B)

acrilan®

* anchor band quilted mattress pad



ELASTIC ANCHOR BANDS
FOR SMOOTH SNUG FIT

A
ACRILAN®

acrylic fiber by Chemstrand

NO SPECIAL LAUNDERING REQUIRED

* amazingly buoyant—yet with superb fullness and body
* completely sanforized to prevent shrinkage
* allergy—dustproof—mothproof—will not mildew
* stays fluffy—fresh and soft always
* luxury-filled with the finest of the modern living fibers

acrilan anchor band quilted mattress pad TWIN SIZE

Plaintiff's "Acrilan" Trademark Registration (PX 6A)

Registered July 24, 1951 **Registration No. 545,734**

PRINCIPAL REGISTER

Trade-Mark

UNITED STATES PATENT OFFICE

The Chemstrand Corporation, Philadelphia, Pa.

Act of 1946

Application October 25, 1950, Serial No. 605,408

ACRILAN

STATEMENT

The Chemstrand Corporation, a corporation duly organized under the laws of the State of Delaware, located and doing business at 1617 Pennsylvania Boulevard, Philadelphia, Pennsylvania, has adopted and is using the trade-mark shown in the accompanying drawing, for YARNS, THREADS, AND YARN AND THREAD FILAMENTS, in class 43, Thread and yarn, and presents herewith five specimens showing the trade-mark as actually used in connection with such goods, the trade-mark being applied to containers for the goods, and requests that that same be registered in the United States Patent Office on the Principal Register in accordance with the act of July 5, 1946.

The trade-mark was first used on October 18, 1950, and first used in commerce among the several States which may lawfully be regulated by Congress on October 18, 1950.

THE CHEMSTRAND CORPORATION,
By F. WILLIAM KOSTER,
Secretary.

Amendment

Registered July 24, 1951 Registration No. 545,734

The Chemstrand Corporation

Application to amend having been made by The Chemstrand Corporation, owner of the registration above identified, said registration is hereby amended as follows:

In the certificate, line 4, after "Pennsylvania," *now of Decatur, Alabama,* is inserted, in the heading, after "Pa.", *now of Decatur, Alabama* is inserted, and in the statement, column 1, line 5, after "vania,", *now located and doing business at Decatur, Alabama* is inserted.

Such amendments have been entered upon the records of the Patent Office and the said original registration should be read as so amended.

Signed and sealed this 8th day of September 1959.

DAPHNE LEEDS,
Assistant Commissioner of Patents.

Plaintiff's "A-Acrilan" Trademark Registration (PX 6B)

Registered Dec. 22, 1953 **Registration No. 583,881**

PRINCIPAL REGISTER

Trade-Mark

UNITED STATES PATENT OFFICE

The Chemstrand Corporation, Decatur, Ala.

Act of 1946

Application November 15, 1952, Serial No. 638,134

STATEMENT

The Chemstrand Corporation, a corporation duly organized under the laws of the State of Delaware, located and doing business at Decatur, Alabama, has adopted and is using the trade-mark shown in the accompanying drawing, for YARNS, THREADS, AND YARN AND THREAD FILAMENTS, in Class 43, Thread and yarn, and presents herewith five specimens showing the trade-mark as actually used in connection with such goods, the trade-mark being affixed to containers and supporting means for the goods, and requests that the same be registered in the United States Patent Office on the Principal Register in accordance with the act of July 5, 1946. Applicant is the owner of the trade-mark "Acrilan," Registration No. 545,734, registered July 24, 1951.

The trade-mark was first used on November 11, 1952, and first used in commerce among the several States of the United States which may lawfully be regulated by Congress on November 11, 1952.

THE CHEMSTRAND CORPORATION,
By F. WILLIAM KOSTER,
Secretary.

Plaintiff's "Chemstrand" Trademark Registration (PX 6C)

United States Patent Office

660,842

Registered Apr. 22, 1958

PRINCIPAL REGISTER

Trade-Mark

Ser. No. 30,994, filed May 29, 1957

CHEMSTRAND

The Chemstrand Corporation (Delaware corporation)
Decatur, Ala.

For: YARNS, THREADS, AND YARN AND THREAD FILAMENTS, in CLASS 43.

First use July 19, 1949; in commerce July 19, 1949.

Owner of Reg. Nos. 540,399, 600,796, and others.

Section 5 of the Lanham Act, 15 U. S. C. 1055

15 U. S. C. 1055. USE BY RELATED COMPANIES

Where a registered mark or mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public.

Section 35 of the Lanham Act, 15 U. S. C. 1117

15 U. S. C. 1117. REMEDIES—RECOVERY FOR VIOLATION OF RIGHTS

When a violation of any right of the registrant of a mark registered in the Patent Office shall have been established in any civil action arising under this Act, the plaintiff shall be entitled, subject to the provisions of sections 29 and 32 and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty (Amended by Public Law 772, 87th Cong., approved Oct. 9, 1962, 76 Stat. 769).

Findings of Fact and Conclusions of Law After Trial

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

Civil Action No. 139-273

MONSANTO CHEMICAL COMPANY,
Successor by merger to
THE CHEMSTRAND CORPORATION,
Plaintiff,

v

PERFECT FIT PRODUCTS MANUFACTURING COMPANY, INC.,
Defendant.

FINDINGS OF FACT

1. ACTION, PARTIES, JURISDICTION

1.1 This is an action for trademark infringement, unfair competition, and a false description of goods. The jurisdiction of this court is predicated upon 28 U. S. C., §§ 1338 and 1391 and has been admitted.

1.2 This action was commenced on November 5, 1958 by the Chemstrand Corporation, a Delaware corporation with a place of business at 350 Fifth Avenue, New York, New York, which was merged on April 24, 1962 into Monsanto Chemical Company, also a Delaware corporation with the same place of business. The parties have stipulated for substitution of Monsanto Chemical Company as the plaintiff, but all references in the pleadings and other papers to "Plaintiff" refer to The Chemstrand Corporation prior to the merger.

1.3 Defendant, Perfect Fit Products Manufacturing Co., is a Pennsylvania corporation doing business within the Southern District of New York with a place of business

at 310 Fifth Avenue, New York, N. Y. Subsequent to commencement of this action, defendant's corporate name was changed to Perfect Fit Industries, Inc., but the action will be continued in the original name of defendant.

2. Plaintiff's Business and Its Acrylic Fiber

2.1 Continuously since 1949 plaintiff has been engaged in the business of developing, manufacturing, and selling synthetic fibers used in textiles and other products and sold through the United States and in foreign countries. Plaintiff's sales for the year of 1957 exceeded One Hundred Forty-six Million Dollars ($146,000,000).

2.2 Among the fibers sold by plaintiff is an acrylic fiber which is widely used in rugs, carpets and blankets, as a filling material in bedding products such as pillows, comforters and, to a very limited extent, in mattress pads. Plaintiff's acrylic fiber has been favorably received by the trade with sales in the years from 1955 through 1958 exceeding Fifty Million Dollars ($50,000,000).

3. Plaintiff's Trademarks

3.1 On or about May 16, 1949, plaintiff commenced to use the name "The Chemstrand Corporation" as a trade name for its synthetic fiber business. Shortly thereafter, on or about July 19, 1949, plaintiff adopted and began to use in interstate commerce the term "Chemstrand" as a trademark for fibers of its manufacture. Plaintiff is now using and has continuously used the trade name "The Chemstrand Corporation" and the trademark "Chemstrand" since adoption thereof.

3.2 On or about October 18, 1950, plaintiff adopted and began to use the term "Acrilan." Since 1952 plaintiff has used "Acrilan" as a trademark for substantially all acrylic fiber of its manufacture. In addition plaintiff is using a composite form of the trademark "Acrilan" in association

with a large letter "A" (hereinafter referred to as "A-Acrilan"). Plaintiff adopted and began to use the mark "A-Acrilan" in interstate commerce on or about November 11, 1952.

3.3 The following United States Trademark Registrations have been issued to plaintiff:

(a) Certificate of Registration No. 545,734, issued July 24, 1951, for the trademark "Acrilan" as applied to yarns, threads, and yarn and thread filaments.

(b) Certificate of Registration No. 583,881, issued December 22, 1953, for the trademark "A-Acrilan" as applied to yarns, threads, and yarn filaments.

(c) Certificate of Registration No. 660,842, reissued April 22, 1958, for the trademark "Chemstrand" as applied to yarns, threads, and yarn and thread filaments.

4. Validity of Plaintiff's Trademark Rights and Goodwill Therein

4.1 The foregoing registrations for the trademarks "Chemstrand," "Acrilan" and "A-Acrilan" were all duly and legally issued and are valid, subsisting, uncancelled and unrevoked. Plaintiff has at all times been the owner of all right, title and interest in and to such registrations.

4.2 Plaintiff has expended large sums of money on advertising by radio, television, newspapers, magazines, trade publications and other media throughout the United States to publicize and promote its acrylic fiber under the trademarks "Acrilan" and "A-Acrilan." During the five year period ending October 1958, plaintiff's advertising expenditures for acrylic fiber and its trademarks "Acrilan" and "A-Acrilan" exceeded Ten Million Dollars ($10,000,000).

4.3 Plaintiff's acrylic fiber and its "Acrilan" trademarks have become widely and favorably known in the trade and to consumers. Plaintiff's "Acrilan" trademarks represent valuable goodwill.

4.4 Plaintiff has fully complied with the provisions of Section 1111 of Title 15, United States Code, by placing the required statutory notice on all labels, tags and advertising matter bearing or utilizing its trademarks "Acrilan," "A-Acrilan" and "Chemstrand." Defendant received actual notice of plaintiff's trademark rights in January 1958.

5. USE OF THE "ACRILAN" TRADEMARKS BY OTHERS: INSPECTION AND CONTROL

5.1 The "Acrilan" trademarks are used not only by plaintiff but also by others in connection with the sale of finished goods made with "Acrilan" acrylic fiber. The marks are used by others either collaterally to describe the acrilan content of the product or in a primary trademark sense to identify plaintiff as the sponsor of the goods.

5.2 Plaintiff has made a uniform practice of inspecting and controlling the use of its "Acrilan" trademarks by others. As part of such control plaintiff had established by 1958 various licensing programs in the fields of fiberfill, carpeting and blankets, and it had specific agreements applicable to each program. The agreements, which found varying degrees of acceptance in each trade, set forth detailed specifications for the particular product to meet optimum performance, and required submission of a sample product for testing and approval. Some of these license agreements called for 100 per cent acrilan in the end product before the trademarks could be used, but other agreements provided for lesser percentages. Plaintiff has

not authorized the use of its "Acrilan" trademarks under these license agreements until a specimen of the product has been submitted, tested and approved. However, plaintiff also sold "Acrilan" acrylic fiber to non-licensees, but did not authorize non-licensed purchasers to use the trademarks in a primary sense.

6. Defendant's Business and The Carolina Manufacturing Company

6.1 Defendant is engaged in the business of selling accessory products for the bed, including mattress pads, coverlets and bedspreads. From 1951 to October 31, 1958, all products sold by defendant were manufactured by the Carolina Manufacturing Company ("Carolina") of Monroe, North Carolina, and from June 30, 1957 to June 30, 1959 more than 90 per cent of Carolina's business consisted of manufacturing products for defendant.

6.2 Prior to October 31, 1958, Carolina was an unincorporated company owned by one Manuel Fisher. Mr. Fisher was employed by defendant from 1948 to 1951 and is the brother-in-law of Ephraim Bloch, president of defendant. In 1958 defendant owned the garnetting machinery, quilting machinery, sewing machines, cutting knives, shoddying machines and substantially all other production equipment used by the Carolina Manufacturing Company. Defendant also owned some of the office equipment used by Carolina. Mr. Ephraim Bloch as trustee for various members of his family then owned one of the buildings occupied by Carolina and leased it to Carolina.

6.3 In 1958 defendant was in daily telephone communication with Carolina and furnished detailed oral instructions to Carolina as to the types, quantity and specifica-

tions for products ordered by defendant. Such instructions included the nature and quantity of fiber and other raw materials and the labels to be used. Defendant purchased for its own account and supplied Carolina with raw materials including fiber and also with packages and labels. Carolina shipped the products directly to defendant's customers.

7. Defendant's "Acrilan" Labeled Mattress Pad and Fiber Content Thereof

7.1 In 1958 defendant sold a large number of mattress pads under labels bearing plaintiff's trademarks, and in some instances the additional designation "Acrylic Fiber by Chemstrand." Defendant admits the sale of nearly 17,000 such pads, approximately 3,300 of which were returned. After returns are deducted, defendant admits selling 6,772 pads with the original "A-Acrilan" label, 4,368 pads with the "Acrilan" label, and 2,559 pads with the "Nylon-Acrilan" label. At various times and at different retail stores plaintiff obtained and tested several of defendant's mattress pads with these different labels.

7.2 Analytical tests performed by plaintiff and by an independent testing laboratory established that several of defendant's "Acrilan" labeled mattress pads which were tested did not contain any "Acrilan" acrylic fiber, while the others contained only minor insubstantial proportions thereof not exceeding 25 per cent in any case. The tests also revealed that defendant did not use a uniform blend of any particular fibers in the pads tested, but rather various mixtures and proportions of many fibers, including cotton, acetate, Viscose, rayon, nylon, Dacron, Verel, Orlon, Dralon, and even rubber.

8. Poor Quality of Defendant's "Acrilan" Labeled Mattress Pads

8.1 Washing tests conducted by plaintiff established that defendant's "Acrilan" labeled mattress pads were poorly constructed and were likely to deteriorate under normal household washing conditions. During the tests the mattress pads lumped, matted, tore apart at the seams, quilting stitches broke, and as evidenced by photographs, the laundering caused such shrinkage and warping of the normal rectangular shape of the mattress pads as to render them unsatisfactory for ordinary use. By contrast, a good quality, 100 per cent acrilan filled mattress pad performed well under similar laundering conditions.

8.2 Present in the filling material of defendant's "Acrilan" labeled mattress pads was secondhand waste material, such as floor sweepings, reclaimed from shoddying and garnetting machines. Such waste material was evident in specimens of the filler which contained bits of paper and trash, neppy material, pieces of yarn and shredded chunks of cloth, short or broken fibers, and considerable dust and fly. By contrast, a specimen of 100 per cent virgin acrilan fiberfill comprised a smooth uniform web of unbroken fibers.

8.3 The cover cloth of defendant's "Acrilan" labeled mattress pads comprised cheap, poor quality cloth, low in thread count and heavily sized with 30 per cent by weight starch and talc to give the appearance of good quality cloth. As evidenced by before and after washing specimens, the sizing rinsed out with a single washing leaving a dust-porous, rough fabric having an inferior appearance.

8.4 Neither defendant nor Carolina subjected the "Acrilan" labeled mattress pads to any process for rendering them allergy-free, dustproof, mildew proof or resistant to

shrinkage, nor did they perform any tests to determine whether the pads were allergy-free, dustproof or mildew proof. The pads shrank badly under normal laundering conditions; three of the pads tested contained large quantities of cotton and rayon which are more susceptible to mildew than any other fibers; and the waste material used in the filler was likely to sift through the dust-porous covercloth used on the pads.

9. Defendant's Deceptive Labeling Practices

9.1 In connection with the sale of mattress pads, defendant employed large bright colored displays of the "Acrilan" trademarks which, in the case of the "A-Acrilan" and "Acrilan" labels, comprised the primary and most conspicuous items on the labels of the pads. On the "Nylon-Acrilan" labels, the "Acrilan" trademark was of equal prominence with the word "Nylon." The "A-Acrilan" labels did not include any trade name, trademark or indication of origin other than the trademarks "Acrilan," "A-Acrilan" and "Chemstrand." Except for the word "Nylon" on the "Nylon-Acrilan" label, no fibers other than acrilan were mentioned on the labels. Nor were any percentage figures ever used.

9.2 Defendant's "Acrilan" labels falsely represented and were likely to cause confusion as to the source or origin of the fibers used in the mattress pads. The labels were calculated to deceive purchasers to believe that the pads contained 100 per cent acrilan or at least quantities of acrilan far in excess of the quantities actually used. At least one of defendant's retail store customers erroneously advertised defendant's mattress pads as "100% Acrilan filled."

9.3 Defendant's large, bright-colored displays of the "Acrilan" trademarks were further calculated to deceive

purchasers to believe that the mattress pads were made by one of plaintiff's trademark licensees and approved by plaintiff as to quality. Such displays of the trademarks went far beyond a fair collateral use of plaintiff's trademarks to describe any acrilan content of the mattress pads.

10. Other Labeling Practices of Defendant

10.1 Defendant labeled its mattress pads with law labels which were false both as to the kind and grade of fibers used. The law labels on two of the mattress pads which plaintiff tested read: "All new materials consisting of acrylic fibers," when in fact the pads contained only minor quantities of acrylic fiber, less than 25 per cent in both cases. Another pad which plaintiff tested bore the label: "All new materials consisting of synthetic fibers," but in fact the pad contained 8 per cent cotton and 53.7 per cent rayon and acetate, which are not synthetic fibers.

10.2 In all four mattress pads, the statements in the law labels that the materials were "all new" were false also. "New material" does not include fiber which has been reclaimed from a manufactured product. All four mattress pads contained waste identified as by-products, refuse, floor sweepings from around machines and cleanings from pickers.

10.3 The outer labels of defendant's mattress pads carried false and misleading statements as to their properties, such as for example: "Completely sanforized to prevent shrinkage," "No special laundering required," "Dust-proof," and "Will not mildew." Plaintiff's tests conclusively established that the mattress pads possessed none of the alleged properties.

11. Dealings Between Plaintiff and Defendant

11.1. Defendant committed the foregoing acts of trademark infringement and unfair competition wilfully with full knowledge of plaintiff's rights and as part of a preconceived plan to trade upon plaintiff's goodwill until forced to desist by legal action. As part of its plan, defendant made misrepresentations to plaintiff and attempted to conceal the true facts relating to its mattress pads and labeling practices. Although there were discussions between plaintiff and defendant with regard to defendant's use of "Acrilan" acrylic fiber, plaintiff did not approve of any product or label proposed by defendant, nor did it acquiesce in defendant's use of the "Acrilan" trademarks.

11.2 In the spring of 1958, after defendant had purchased a sample quantity of acrilan, plaintiff's representatives inquired as to how defendant would use the recently purchased acrilan and defendant's representatives replied that it would be incorporated in a coverlet which was represented as 100 per cent acrilan filled. The discussions concerned only a 100 per cent acrilan filled coverlet.

11.3 On March 7, 1958 plaintiff requested a sample of defendant's coverlet and set forth its specifications for the product. Defendant submitted the sample coverlet on or about March 11, 1958 in an unmarked plastic (polyethylene) bag. Tests by plaintiff on the sample indicated that it was 100 per cent acrilan but otherwise unsatisfactory in quality. On April 24, 1958, plaintiff reported the results of its tests to defendant with specific recommendations as to improvements of the quality of the coverlet and requested another sample when so modified. Defendant acknowledged the recommendations on May 6, 1958 and even asked for further information concerning construction of the

coverlet. Thinking that defendant was going to use the fiber in a coverlet, plaintiff sold 20,494 pounds of acrilan fiber-fill to defendant in the period from March 10, 1958 to May 15, 1958.

11.4 Defendant had already abandoned the idea of a coverlet by March 7, 1958 when plaintiff requested the coverlet sample. By that time defendant was already making final preparations for its "A-Acrilan" labeled mattress pad. On March 14, 1958 defendant's supplier acknowledged defendant's order for 30,000 "Acrilan" labeled polyethylene bags. Defendant began to take orders for these pads on April 10, 1958 and the first shipment took place on April 29, 1958.

11.5 Not until May 26, 1958 did plaintiff learn of defendant's intention to sell an "Acrilan" labeled mattress pad and then only through a trade publication. Prior to that date all comunications between the parties related to defendant's 100 per cent acrilan filled coverlet. There had been no mention of a mattress pad nor of any product comprised of a blend of acrilan with other fibers and defendant had not submitted to plaintiff a proposed label indicating the manner in which it proposed to display the "Acrilan" trademarks.

11.6 Immediately upon learning of the "Acrilan" mattress pad, plaintiff called defendant and asked for a sample which, after a delay of two weeks, was delivered on or about June 13, 1958 in an unmarked plastic bag. Without delay, plaintiff on July 17, 1958, submitted the sample mattress pad for wash tests, which were completed on June 21, 1958. Because the bat—the material between the covers of the pad—had deteriorated into clumps of fiber giving it a poor appearance, plaintiff rushed analytical tests on the sample pad. These tests were completed on

July 8, 1958 and indicated 91.5 per cent rayon and 8.5 per cent acrylic of unidentified origin. Upon receipt of the test data, plaintiff telephoned defendant and reported the test results. Defendant replied that the mill (Carolina) must have made a mistake and promised to send immediately another sample filled with 100 per cent acrilan but the second sample never arrived.

11.7 Within a few days plaintiff learned through an advertisement that defendant's "A-Acrilan" labeled pad was being sold at Thalhimer's Department Store in Richmond, Virginia. Plaintiff purchased one of the pads on July 17, 1958, and through tests completed on July 23, 1958, discovered that the pad contained primarily cotton and rayon and only 20.9 per cent acrylic. At about the same time plaintiff ascertained that other "A-Acrilan" labeled pads of defendant sold through Gertz Department Store had a very low percentage of acrilan. Accordingly, plaintiff on July 23, 1958 dispatched a telegram to defendant charging misuse of its trademarks.

11.8 On July 25, 1958 there was a telephone conversation between the parties in which defendant admitted that it was wrong. Upon plaintiff's insistence, defendant agreed to furnish plaintiff with a list of defendant's customers for "A-Acrilan" labeled mattress pads and to recall all such mattress pads. Later the same day defendant, through its sales manager, reported to plaintiff that it had communicated with all of its customers and had recalled all of the "A-Acrilan" labeled mattress pads. Defendant's sales manager also furnished plaintiff with a list which purported to identify all these customers. Then unknown to plaintiff, the list of customers was incomplete, not including the name of Spiegel's, a large Chicago mail order house, which was defendant's largest customer.

11.9 Of the 739½ dozen mattress pads with the "A-Acrilan" label which defendant admits shipping prior to July 25, 1958, 175-1/6 dozen were returned to defendant, some from each one of its customers. Spiegel's returned 47-5/12 dozen of the 547½ dozen pads which defendant had shipped. Defendant continued to ship pads to Spiegel's, however, with a new label, identifying defendant as the manufacturer of the pads, but which, without permission, prominently and conspicuously displayed plaintiff's "Acrilan" trademark.

11.10 During the first week in August 1958, there was a conference between the parties in which defendant for the first time expressed its intention to market a mattress pad containing a blend of "acrilan" and other fibers, and it displayed a proposed new "Nylon-Acrilan" label for use on a 90 per cent nylon-10 per cent "acrilan" filled pad. Plaintiff objected to both the pad and the label. Although there were discussions as to proper labeling practices, plaintiff did not approve of any proposed mattress pad or label. Defendant agreed to prepare a new label and to submit a sample to plaintiff, but no such sample was ever submitted.

12. Similar Acts of Defendant in Regard to Other Fiber Manufacturers

12.1 In 1957 defendant entered into a contract with Celanese Corporation of America which authorized defendant to use the trademark "Celacloud" on mattress pads ". . . only when the stuffing material in the goods is 100% Type F acetate staple manufactured by or for Celanese . . ." Subsequently, Celanese purchased and tested two of defendant's mattress pads labeled "Celacloud" without reference to any other fibers, and discovered

that neither contained 100% Type F Celanese acetate, but that one contained 50% waste material and one 29.64% rayon. In view of the tests, Celanese terminated the agreement and demanded that defendant recall from its customers all "Celacloud" labeled products. Defendant replied to Celanese that the alleged failure could have only occurred through inadvertence of an employee of the Carolina Manufacturing Company. Subsequently, Celanese purchased and tested one more of defendant's mattress pads and found it to be materially adulterated. Thereupon Celanese instituted an action against defendant in the Supreme Court of New York and moved for a preliminary injunction. Defendant then consented to a judgment without payment for any damages sustained by Celanese or an accounting of its profits.

12.2 After entry of the consent injunction in the Celanese case early in 1958 and the preliminary injunction in this case late in 1958, defendant in 1959 marketed mattress pads labeled "DuPont nylon filled" and "All new materials consisting of synthetic fibers." The Better Business Bureau investigated these mattress pads and found that they contained no nylon whatsoever and 59.2 per cent cotton which is not a synthetic fiber.

12.3 Beginning in 1958 and continuing into 1963, defendant marketed mattress pads with labels reading: "Filling 100% Estron" or "All 'Estron' Acetate Filling Fiber," "Estron" being the trademark of Tennessee Eastman Company for its acetate fiber. Plaintiff's analytical tests on two of these pads established that the pads contained less than 60 per cent acetate.

13. Necessity for Injunctive Relief

13.1 Injunctive relief is necessary in this case because of defendant's habitual course of infringment. Defendant

did not voluntarily discontinue its infringement; any cessation of its infringing activities was due to the institution of this action and the issuance of a preliminary injunction herein.

CONCLUSIONS OF LAW

1. This court has jurisdiction of the parties and subject matter involved herein.

2. Through adoption, use and registration of the terms "Acrilan," "A-Acrilan," and "Chemstrand," plaintiff acquired common law and statutory trademark rights in such terms. United States Trademark Registrations No. 545,734, No. 583,881 and No. 660,842 were duly and legally issued and are good and valid in law.

3. Plaintiff has adequately controlled the use of its "Acrilan" trademarks by others.

4. Defendant's use of the "Acrilan" trademarks on poor quality mattress pads, which contained primarily waste material with little or no "Acrilan" acrylic fiber, comprised trademark infringement, unfair competition and a false description of goods.

5. Defendant's large, bright-colored displays of the "Acrilan" trademarks exceeded a fair collateral use of the trademarks.

6. Defendant should be enjoined from engaging in further acts of trademark infringment and unfair competition.

7. Since the parties are not competitors, plaintiff is not entitled to an accounting of defendant's profits.

8. Plaintiff has not proved that it sustained any damage by reason of defendant's infringement.

9. Plaintiff is entitled to recover its reasonable attorneys' fees incurred in the prosecution of this action and its reasonable expenses incurred in investigating defendant's activities and in testing defendant's mattress pads, the amount of which is to be determined at a hearing.

Dated: March 31, 1964.

EDWARD C. MCLEAN,
U. S. D. J.

Opinion of the Court of Appeals

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 384—September, 1964.

(Argued March 17, 1965 Decided July 28, 1965.)

Docket No. 29179

MONSANTO CHEMICAL COMPANY, Successor by merger to THE CHEMSTRAND CORPORATION,
Appellee-Appellant (Plaintiff),

—v.—

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Appellant-Appellee (Defendant).

Before:

LUMBARD, *Chief Judge,*
MOORE and MARSHALL, *Circuit Judges.*

Both parties appeal from a judgment of the United States District Court for the Southern District of New York, Edward C. McLean, *J.*, in a trademark case which allowed legal fees to the plaintiff but did not award damages or an accounting. Reversed and remanded for an accounting of the defendant's profits.

WALTER H. FREE, New York, N. Y. (Brumbaugh, Free, Graves & Donohue, and John F. Neary, Jr., Richard A. Lochner, New York, N. Y., on the brief), *for appellee-appellant (plaintiff).*

Opinion of the Court of Appeals

JAY F. GORDON, New York, N. Y. (Nathanson, Gordon & Reich, and Melvyn Altman, New York, N. Y., on the brief), *for appellant-appellee (defendant).*

LUMBARD, *Chief Judge:*

The issue on this appeal is whether the district court erred in refusing to allow an accounting of the profits gained by the defendant through its deliberate infringement of the plaintiff's trademark on the ground that the parties were not in direct competition. We conclude that the public interest in deterring fraudulent sales practices requires that such an accounting be allowed, and we therefore remand the case for such accounting.

The facts, as found by Judge McLean after a trial at which the defendant adduced no evidence, are undisputed. The plaintiff, Monsanto Chemical Co., produces an acrylic fiber, which it markets under the registered trademark "Acrilan." This mark was registered under the Lanham Trademark Act of 1947, 15 U. S. C. §§ 1051 et seq. The defendant, Perfect Fit, deliberately infringed this mark by selling mattress pads falsely labeled as Acrilan-filled. The pads were produced for Perfect Fit by the Carolina Manufacturing Co., which was in effect Perfect Fit's manufacturing division.[1]

After initial discussion between Perfect Fit and Monsanto concerning manufacture of a 100 per cent Acrilan-

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[1] Carolina was owned by Manuel Fisher, a former employee of Perfect Fit and a brother-in-law of Perfect Fit's president. During 1958—the year involved in this case—all of Perfect Fit's products were produced by Carolina, and over 90 per cent of Carolina's sales were to Perfect Fit. Perfect Fit itself purchased the raw material and labels, and it gave Carolina detailed instructions regarding manufacture of the pads.

filled coverlet, Perfect Fit decided in March of 1958 to market an "Acrilan" mattress pad instead. It ordered some 20,000 pounds of acrilan fiber from Monsanto and 30,000 "Acrilan"-labeled polyethylene bags from a supplier. The first pads were shipped in late April, but Monsanto did not learn of them until late May and then only through a trade publication; all of the prior communications between the parties had concerned the proposed coverlet.

Monstanto tested one of the pads, supplied at its request by Perfect Fit, and found that it contained only 8.5 per cent acrylic fiber, the rest being rayon. When confronted with this finding, Perfect Fit explained that Carolina must have made a mistake, and it promised to send another sample with 100 per cent Acrilan. The second sample never arrived.

Monsanto then purchased a number of the Perfect Fit pads in retail stores. All these pads, labeled as Acrilan mattress pads, contained less than 25 per cent of acrylic fiber and some contained none whatever. The rest of their fill consisted of cotton, acetate, nylon and other fibers, mixed in various proportions. Some of the fibers were second-hand waste material, such as fibers from floor sweepings, which contained considerable amounts of dust.

The labels on the pads claimed that the pads were "completely sanforized to prevent shrinkage" and "allergy—dustproof—mothproof—will not mildew." Each of these claims was false. In addition, the covers for the pads, as the district court found, were made of

> "cheap, poor quality cloth, low in thread count and heavily sized with 30 per cent by weight starch and talc to give the appearance of good quality cloth. As evidenced by before and after washing specimens, the sizing rinsed out with a single washing leaving a dust-porous, rough fabric having an inferior appearance."

At a meeting on July 25, Perfect Fit admitted the mislabelling, and, on Monsanto's insistence, supplied what pur-

ported to be a list of the customers for the pads. In fact, however, the largest customer was not on the list.

The parties again conferred in August, and Perfect Fit proposed to manufacture a nylon-Acrilan pad, so labeled. Nothing came of this, however, and Monsanto brought suit in November in the Southern District, alleging infringement of its trademark and unfair competition. Jurisdiction was based on 28 U. S. C. § 1338. In December, Perfect Fit consented to a preliminary injunction.

Following a trial without jury, Judge McLean found that Perfect Fit had infringed Monsanto's trademark, that its acts constituted unfair competition, and that it had acted "wilfully with full knowledge of plaintiff's rights and as part of a pre-conceived plan to trade upon plaintiff's goodwill." He granted a permanent injunction and awarded $15,877.88 legal fees. However, he found that Monsanto had failed to prove that it had sustained any damage, and he concluded that an accounting could not be allowed since the parties are not competitors; this latter conclusion he regarded as being required by our decisions in *Admiral Corp.* v. *Penco, Inc.*, 203 F. 2d 517 (2 Cir. 1953) and *Triangle Publications, Inc.* v. *Rohrlich*, 167 F. 2d 969 (2 Cir. 1948).

Both parties appeal. Perfect Fit objects to the award of legal fees on two grounds: first, since prior to trial it had proposed a consent decree as broad as the injunction ultimately ordered by Judge McLean, Monsanto gained nothing from the trial and was in fact an unsuccessful litigant; and, second, that the award is excessive. Monsanto's appeal attacks both Judge McLean's finding that it has not adequately proved damages and his conclusion that an accounting is unavailable since the parties are not competitors.

We affirm Judge McLean's refusal to award damages. However, we hold that an accounting should be allowed on the facts of this case, and we overrule *Admiral Corp.* v. *Penco, Inc., supra,* and *Triangle Publications, Inc.* v. *Rohrlich, supra,* so far as they are inconsistent with our

holding in the present case. We therefore remand for an accounting of the defendant's profits resulting from its infringement of the Acrilan trademark.

With respect to the defendant's appeal, since the relief ultimately granted will go beyond that offered by the defendant in settlement prior to the trial, we do not reach the question whether an award of legal fees would otherwise have been improper. We find that the legal fees awarded for the litigation prior to this appeal are reasonable in amount; we leave for determination by the district court on remand whether a further allowance should be made for the expenses incurred on remand. We also allow Monsanto $1,500 for legal expenses on this appeal.

I. The Rationale for an Accounting.

Consideration of the principles which we think should govern the award of an accounting in the present case must begin with § 35 of the Lanham Act, 15 U. S. C. § 1117, which provides for the award of damages and accounts for the infringement of marks registered under the Act. The trademark plaintiff is entitled under § 35 to recover, "subject to the principles of equity,"

> "(1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action . . . In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty."

On its face, § 35 would seem to give a district court the broadest kind of discretion in tailoring the plaintiff's recovery, whether in damages or by way of an accounting, to the facts of the particular case. Compare Trade-Mark Act of 1905, § 19, 33 Stat. 729. So far as accountings are concerned, however, recourse to this broad discretion has been considered by a number of courts, including this one, to be limited by the nature of the right asserted by the trademark plaintiff.

The more narrow view of the right has been that it is merely a means of protecting a businessman from injury resulting from another's use of his mark. *Durable Toy & Novelty Corp.* v. *J. Chein & Co.*, 133 F. 2d 853 (2 Cir.), cert. denied, 320 U. S. 211 (1943). Injunctive relief may be warranted by the mere possibility of such injury, but a monetary award, whether in the form of damages or an accounting, is justified only to the extent that injury is shown already to have been suffered. This has been the conventional view, see Note, 1963 Wash. U. L. Q. 243, and it is the view underlying the decisions of this court relied on by Judge McLean in this case.

There is nothing in this view of the trademark right which entitles the plaintiff to the infringer's profits as such. An accounting has been thought proper only as an indirect measure of the plaintiff's injury, that is, only if some relationship between the infringer's profits and the plaintiff's injury can be inferred. As a result accountings have been limited to cases in which the parties are competing for trade and the defendant's trade may thus be presumed to have been diverted from the plaintiff. This is the rule adopted by the Restatement of Torts, § 747.

An alternative view of the trademark right is that it is a form of property, similar in this respect to a copyright or patent right. Taking this view, the justification for an accounting is found in the principles of unjust enrichment traditionally applicable where property is used for profit without the owner's permission, and, if the view is carried

to its logical conclusion, an accounting should be awarded automatically in most cases. In particular, since the accounting is not dependent upon presumed injury to the plaintiff, it is irrelevant that the plaintiff was not selling in the market exploited by the infringer. See the discussion of patent and copyright accountings in *Sammons* v. *Colonial Press, Inc.*, 126 F. 2d 341, 344-346 (1 Cir. 1942).

There is direct support for the property right view in the decision of the First Circuit in *Baker* v. *Simmons Co.*, 325 F. 2d 580, 582 (1963),[2] and more ambiguous support in decisions of the Tenth[3] and Third[4] Circuits. It also is

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[2] A portion of the defendant's business was competitive with the plaintiff but a substantial portion—about 40 per cent—was not. The Court upheld an accounting as to the profits from the entire business.

[3] *Blue Bell Co.* v. *Frontier Refining Co.*, 213 F. 2d 354, 362-63 (10 Cir. 1954). The parties were both gasoline distributors but in different states. The decision at least stands for the rule, discussed later in this opinion, that an accounting may be allowed where the parties market the same product in different geographical areas; and the court's reference to "consuming market" and "trade territory" and its citation of *Dad's Root Beer Co.* v. *Doc's Beverages, Inc.*, 193 F. 2d 77 (2 Cir. 1951), as supporting authority suggest that the decision stands for no more than this. On the other hand, the accounting was expressly grounded on "the equitable principle of unjust enrichment, not the legal theory of provable damages." and *Dad's Root Beer* was bolstered by citation of copyright accounting cases.

[4] See *Century Distilling Co.* v. *Continental Distilling Corp.*, 86 F. Supp. 503 (E. D. Pa. 1949), accounting approved on appeal from subsequent order, 205 F. 2d 140 (3 Cir.), cert. denied, 346 U. S. 900 (1953). The plaintiff and defendant sold a "cheap whiskey" and a "quality gin" respectively. 205 F. 2d at 144. It is not clear whether the district court regarded the competition between the two as sufficient, even though not direct, or whether it simply did not consider competition to be necessary for an accounting. The Third Circuit approved the accounting without expressly considering this problem.

supported by the language of the Supreme Court in *Hamilton-Brown Shoe Co.* v. *Wolf Bros. & Co.*, 240 U. S. 251, 259 (1916):

> "The right to use a trade-mark is recognized as a kind of property, of which the owner is entitled to the exclusive enjoyment to the extent that it has been actually used. [Citations omitted.] The infringer is required in equity to account for and yield up his gains to the true owner, upon a principle analogous to that which charges a trustee with the profits acquired by wrongful use of the property of the *cestui que trust.*"

Since the parties in *Hamilton-Brown* were competitors, the implications of the Court's language were not tested,[5] however, and *Champion Spark Plug Co.* v. *Sanders*, 331 U. S. 125 (1947), subsequently established that competition between the parties at least does not automatically entitle the trademark plaintiff to an accounting.

II. The Prior Decisions of This Court.

This court has rejected in explicit terms the view that a trademark right is a form of intangible property, *Durable Toy & Novelty Corp.* v. *J. Chein & Co.*, *supra*, and has also rejected the argument that the broad language of § 35 allows a district court to award an accounting where the parties are not competitors. *Admiral Corp.* v. *Penco, Inc.*, *supra*, at 521; *Triangle Publications, Inc.* v. *Rohrlich*, *supra*, at 974. The rationale for this interpretation was that § 35

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[5] Both parties manufactured shoes and there were areas in which both sold. However, it appears that there also were some states in which the defendants but not the plaintiff sold. See *Lawrence-Williams Co.* v. *Societe Enfants Gombault*, 52 F. 2d 774, 777 (6 Cir. 1931). The possible implications of the fact that an accounting was nevertheless allowed as to the defendant's entire profits are discussed below.

allows accountings "subject to the principles of equity," which were considered in *Admiral* and *Triangle Publications* to include the requirement that the parties be competitors.

While this court has required that the parties market similar products, *Admiral Corp.* v. *Penco, Inc., supra; Triangle Publications, Inc.* v. *Rohrlich, supra,* it has not required that they market their products in the same geographical area. *Maternally Yours, Inc.* v. *Your Maternity Shop, Inc.,* 234 F. 2d 538, 545 (2 Cir. 1956); *Dad's Root Beer* v. *Doc's Beverages,* 193 F. 2d 77, 82-83 (2 Cir. 1951). The genesis of this distinction was in *Dad's Root Beer.* The plaintiff marketed Dad's Old Fashioned Root Beer in the Chicago area and sold franchise rights and concentrate for other parts of the country. The defendant operated in the New York area, where it had at first marketed Dad's Root Beer under a franchise from the plaintiff but later began to market its own product, Doc's Old Fashioned Root Beer. Although the parties did not directly compete as to beverage sales, the district court ordered an accounting of the defendant's profits from such sales, and this court affirmed. Judge Clark wrote:

> "As the district judge pointed out, it is well settled in equity that a trademark infringer is liable as trustee for profits accruing from his illegal acts, even though the owner was not doing business in the consuming market where the infringement occurred. [Citations omitted.] . . . True, recovery of defendant's profits seems thus far to have been associated with the working hypothesis that they are a valid measure of plaintiff's lost sales. [Citations omitted.] This affirmation does not of itself require the negative, however—that without direct competition in the same geographic area there can be no recovery of profits. We think the force of the precedents cited, re-enforced by the widely

quoted and applied federal rule, leads to the contrary conclusion.

For it is well settled that the court 'will endeavor to adapt its relief to the general equities of the particular situation, as nearly as it is possible to do so,' in designing relief for unfair competition . . . Here, . . . mutual dealings and a contractual business relationship existed prior to an unexcused program of palming off which was intended to, and did, result in purchase-confusion. Of course, plaintiff also had the loss of its franchise commissions and concentrate sales which it was enjoying until defendants substituted spurious 'Old Fashioned' root beer for the trademarked product. Moreover, plaintiff suffered through the possible deterioration of its advertising effectiveness by the appearance on the public market of a similarly named, but separate, product of the same substantial make-up. A limitation of plaintiff's remedies to an injunction against further appropriation of its labels, devices, and advertising good will, leaving to the defendants the actual profits made through their wrongful acts, would be inequitable and contrary to the general state [sic] principles." *Id.* at 82-83.[6]

In the opinion of this court and of the district court in *Dad's Root Beer* three cases are cited for the proposition that an accounting may be ordered where the parties sell similar products in different areas but not where they sell different products: *Hamilton-Brown Shoe Co.* v. *Wolf Bros. & Co., supra; Lawrence-Williams Co.* v. *Societe Enfants*

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[6] Although Judge Clark wrote for the court in the quoted passage, the other two judges on the panel did not join in an earlier part of the opinion, in which Judge Clark expressed his view that the Lanham Act was applicable. All agreed, however, that the same result would follow under either federal or state law. 193 F. 2d at 82.

Gombault, 52 F. 2d 774 (6 Cir. 1931); and *L. P. Larson, Jr. Co.* v. *William Wrigley, Jr. Co.,* 20 F. 2d 830 (7 Cir. 1927), rev'd on another point, 277 U. S. 97 (1928). Whether these cases stand for any such general rule is at least highly doubtful. There is no hint of the product market-geographical market distinction in the *Hamilton-Brown* opinion; the Supreme Court referred only to recovery on an unjust enrichment theory. The court in *Lawrence-Williams,* however, offered in dicta an interpretation of *Hamilton-Brown* which differed from the Supreme Court's language. It observed that the *Hamilton-Brown* briefs and record revealed that there were states in which the defendant sold but the plaintiff did not. Since all of the defendant's profits were included in the accounting, the *Lawrence-Williams* court inferred that,

> "The principle seems to be that as to territory unreached by the plaintiff's trade, it may be inferred that there was a latent demand for plaintiff's goods which it would eventually have supplied, except for the infringement, and hence it has sufficient equitable right to the infringer's profits." *Id.* at 777.

Lawrence-Williams stands only as a somewhat questionable interpretation, in dicta, of *Hamilton-Brown;* the interpretation is justified only if it is assumed that the Supreme Court allowed the accounting on the theory that it measured diversion of trade and not on the theory of unjust enrichment to which its opinion referred. The Seventh Circuit in *L. P. Larson,* on the other hand, did expressly allow an accounting for areas in which the defendant but not the plaintiff was selling. However, the court did not draw a general distinction between geographical separation and product differentiation; rather it found that the defendant's predatory business tactics had prevented the plaintiff from expanding, and it therefore held that, "under the very exceptional circumstances here appearing," it would be

inequitable to deny an accounting simply because the plaintiff had been unable to extend its sales into all of the areas in which the defendant sold.

At the least, the product market-geographical market distinction can hardly be said to be well-established in the law of trademarks. Nor does the distinction derive much support from the rationale of *Dad's Root Beer* itself. Since Judge Clark justified the accounting by enumerating various injuries which the plaintiff suffered or may have suffered—loss of franchise commissions, loss of concentrate sales, deterioration of advertising effectiveness—the rationale is in theory consistent with the view that an accounting is justified only as compensation, although it is not consistent with § 747 of the Restatement of Torts. However, there apparently was no direct proof that any of these injuries was in fact suffered, much less that they approximated in amount the defendant's profits.[7] And, more important, the rationale has little if anything to do with any distinction between product and geographical markets; the same arguments could have been advanced in favor of an accounting if the plaintiff had not been distributing root beer anywhere in the country but was merely selling franchises and concentrate.

III. The Need for an Accounting.

The prior decisions of this court thus rest on two divergent lines of reasoning, divided as to their application by a line which has little to do with either. On one hand there are *Durable Toy, Triangle Publications,* and *Admiral,* which would allow an accounting only where a diversion of sales may reasonably be inferred. On the other hand there are *Dad's Root Beer* and *Maternally Yours,* which refer

[7] The plaintiff had waived its right to prove damages "other than those resulting from profits which may have been made by the defendants." 94 F. Supp. 121 (S. D. N. Y. 1950).

to the traditional discretion of a court of equity in adapting its relief to the case before it.

We conclude that the latter rationale is the proper one under § 35 of the Lanham Act. That this rationale accords better with the language of § 35 is evident, and it is further supported by comparison of § 35 with the less generous language of its predecessor, § 19 of the Trade-Mark Act of 1905, 33 Stat. 729.[8] We also think that it is more suited to the general purposes of the Lanham Act.

In enacting the Lanham Act, Congress observed that any trademark statute had a two-fold purpose:

> "One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats." S. Rep. No. 1333, 79th Cong., 2d Sess. 1-2 (1946), in U. S. Code. Cong. Serv. 1274 (1946).

We think it doubtful whether even the second of these purposes, protection of the trademark owner, is adequately served by a rule which would allow accountings only where the parties directly compete. To have proved directly that the reputation of its Acrilan trademark was injured by Perfect Fit's activities, Monsanto would have been required first to trace the pads from Perfect Fit through the retailer to their ultimate purchasers and then to introduce, in some manner or another, the testimony of a sampling of these purchasers in court. Cf. *Zippo Mfg. Co.*

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[8] Section 19 empowered a trial court in its discretion to award up to treble damages, but, unlike § 35, it did not expressly confer a similar power to vary the amount recovered in an accounting.

v. *Rogers Imports, Inc.*, 216 F. Supp. 670 (S. D. N. Y. 1963) (use of opinion poll). Whether Monsanto tried to obtain such evidence and failed or simply did not try does not appear. However, it seems obvious that there must have been some economic injury to Monsanto, such as loss of sales to legitimate producers and the loss of the goodwill of some of the retail purchasers of Perfect Fit's inferior "Acrilan" mattress pads.

In any event, whatever may be the merit of the narrow rule regarding accountings so far as the trademark owner is concerned, the narrow rule is entirely inadequate to protect the interest of the public. Because the amount involved in a single purchase may be small—here $3.98 for a mattress pad—the ultimate purchaser almost never brings suit even in so blatant a case of deception as here, and the public must depend for protection on the private actions brought by trademark owners.[9] While private actions such as this do not compensate those who purchased the infringer's product, they can deter future infringements by imposing a money judgment on the defendant. The principal defect of the § 747 rule is that it does nothing to render infringement unprofitable in cases such as this. The plaintiff is unable to offer satisfactory proof of its injury, and, so long as the defendant does not infringe the trademark of a direct competitor, it can retain its profits.[10]

There can be no doubt as to the need for deterrence in cases such as this. Perfect Fit has, it appears, taken up trademark infringement as its principal line of business. In at least three other instances it has carried out schemes similar to its misuse of the Acrilan trademark. It may

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[9] The Lanham Act does not provide criminal penalties for trademark infringement. See 15 U. S. C. §§ 1114-1120.

[10] In fact, Monsanto is already considerably out of pocket in prosecuting this action. Its actual expenses have amounted to about approximately $90,000, of which only about $16,000 was covered by the district court's award for legal expenses.

be said to be a commercial racketeer. We quote from Judge McLean's findings, based on uncontradicted evidence:

> "In 1957 defendant entered into a contract with Celanese Corporation of America which authorized defendant to use the trademark 'Celacloud' on mattress pads '. . . only when the stuffing material in the goods in 100% Type F acetate staple manufactured by or for Celanese . . .' Subsequently, Celanese purchased and tested two of defendant's mattress pads labeled 'Celacloud' without reference to any other fibers, and discovered that neither contained 100% Type F Celanese acetate, but that one contained 50% waste material and one 29.64% rayon. In view of the tests, Celanese terminated the agreement and demanded that defendant recall from its customers all 'Celacloud' labeled products. Defendant replied to Celanese that the alleged failure could have only occurred through inadvertence of an employee of the Carolina Manufacturing Company. Subsequently, Celanese purchased and tested one more of defendant's mattress pads and found it to be materially adulterated. Thereupon Celanese instituted an action against defendant in the Supreme Court of New York and moved for a preliminary injunction. Defendant then consented to a judgment without payment for any damages sustained by Celanese or an accounting of its profits.
>
> "After entry of the consent injunction in the Celanese case early in 1958 and the preliminary injunction in this case late in 1958, defendant in 1959 marketed mattress pads labeled 'DuPont nylon filled' and 'All new materials consisting of synthetic fibers.' The Better Business Bureau investigated these mattress pads and found that they contained no nylon whatsoever and 59.2 per cent cotton which is not a synthetic fiber.
>
> "Beginning in 1958 and continuing into 1963, defen-

> dant marketed mattress pads with labels reading: 'Filling 100% Estron' or "All 'Estron' Acetate Filling Fiber,' 'Estron' being the trademark of Tennessee Eastman Company for its acetate fiber. Plaintiff's analytical tests on two of these pads established that the pads contained less than 60 per cent acetate."

We do not hold that it is irrelevant whether the parties are in direct competition; compensation for diverted trade is one important purpose which an accounting may serve. To restrict accountings to this single purpose, however, fails to take account of the other purposes served by the trademark law. Under the circumstances of this case, a judgment limited to an injunction is clearly inadequate to deter those who deliberately engage in commercial piracy which defrauds thousands of consumers and injures a trade name built up at considerable cost by legitimate means.

The judgment of the district court is reversed and the case is remanded for an accounting.[11]

MOORE, Circuit Judge (concurring and dissenting):

Although I concur in the result, namely, that the case should be reversed and remanded, I cannot subscribe to the reasons advanced by the majority for so doing or the limited relief granted, i.e., "an accounting of the defendant's profits." From the facts as found by the trial court, I have no hesitation in concluding that defendant should be required to respond to such damages within the trial court's discretion as may be justified by the proof. The trial court itself might well have reached this result had it not felt bound by decisions of this court which it interpreted as holding "that in such a situation [where the

---

[11] All the active circuit judges have been advised of this opinion and no one of them has requested in banc consideration.

parties are not competitors] an accounting of profits may not be allowed . . .'' Accordingly, the court concluded (Concl. of Law 7), ''Since the parties are not competitors, plaintiff is not entitled to an accounting of defendant's profits.''

I find nothing in the statute, 15 U. S. C. A. § 1117 (§ 35, Lanham Act) which premises recovery upon the existence of a competitive situation. A plaintiff is specifically entitled ''to recover (1) defendant's profits'' and is told that he need ''prove defendant's sales only,'' leaving to the defendant to ''prove all elements of cost or deduction claimed.'' In addition, a plaintiff may recover ''(2) any damages sustained by the plaintiff.'' Thus, if a defendant were to prove slight profit or none, the plaintiff might gain a hollow victory. However, ''damages sustained'' might be established on some factual basis or theory other than ''defendant's profits.'' For example, would it be too far-fetched to hold defendant here to its statements to the public that its mattress pads were filled with ''acrilan''? If equity would now do that which ought to have been done, plaintiff might have as damages its profit on ''acrilan'' sales to defendant in such quantities as would have been necessary to fill the pads with genuine ''acrilan'' and not floor sweepings and waste material or damages on the theory of unjust enrichment. Furthermore, the statute permits the court, if ''the amount of the recovery based on profits is either inadequate or excessive,'' in its discretion to ''enter judgment for such sum as the court shall find to be just, according to the circumstances of the case.'' Therefore, on remand the trial court should be free to enter a judgment upon such equitable basis as may be warranted by the proof.

In *Admiral Corporation* v. *Price Vacuum Stores* (E. D. Pa. 1956), 141 F. Supp. 796, 801, the court commented that:

> ''It seems scarcely equitable, however, for an infringer to reap the benefits of a trademark he has stolen, force

> the registrant to the expense and delay of litigation, and then escape payment of damages on the theory that the registrant suffered no loss. To impose on the infringer nothing more serious than an injunction when he is caught is a tacit invitation to other infringement."

In *Blue Bell Co.* v. *Frontier Ref. Co.*, 213 F. 2d 354, 363 (10th Cir. 1954), the court stated that "recovery is predicated upon the equitable principle of unjust enrichment, not the legal theory of provable damages." That decision has since been cited approvingly by this court in *Maternally Yours, Inc.* v. *Your Maternity Shop*, 234 F. 2d 538, 545 (2d Cir. 1956). See also 4 Callman, *Unfair Competition and Trade-Marks* 1860 & n. 74 (2d ed. 1950). Thus, the fact that plaintiff was not in direct competition with defendant or may not have lost sales directly to defendant is not so relevant to the propriety of an accounting of profits as they are to an award of damages. *Compare Vandenburgh, Trademark Law and Procedure* 386 & n. 17 (1959), *with* id. 385 & n. 11.

Plaintiff undoubtedly has been adversely affected by defendant's unlawful infringement. Defendant, in turn, has made sales of mattress pads and at least to this extent has unjustly enriched itself. Equity requires that the barrier, if such it be, of the *Rohrlich* and *Penco* cases be surmounted. The law must keep pace with industrial and economic reality. Today products sold on a nationwide basis contain scores of component parts manufactured by others. In the textile and synthetic fiber field particularly, chemical and textile companies produce fibers under such trademarked names as "nylon," "dacron," "orlon," "caprolan," "creslan," "kodel," "lycra," and many others, which are not sold to the purchasing public as such but are important and well-advertised ingredients of many household articles and articles of apparel.

Wherever equity is the basis for relief, each case must, of necessity, be decided on its own facts and damages meas-

ured accordingly. The unjust enrichment may be the defendant's profits. The damages sustained by plaintiff may be gauged by the profit it would have made had "acrilan" actually been used in the pads sold. No formula should be decreed which would lessen the trial court's discretion as to how best to achieve a fair award. Our present task is to remove the barrier which the trial court felt existed and to try to set up certain directional arrows.

I find it unnecessary to overrule cases previously decided based upon facts differing from those here presented. Nor, in my opinion, is there any need to consider or discuss "product market—geographical market" distinctions. No facts giving rise to these questions are before us in this case.

I, therefore, concur in reversal and remand, but dissent from the limitation of remand merely "for an accounting of defendant's profits."

Judgment of the Court of Appeals

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the twenty-eighth day of July one thousand nine hundred and sixty-five.

PRESENT:

HON. J. EDWARD LUMBARD, Chief Judge,
HON. LEONARD P. MOORE,
HON. THURGOOD MARSHALL,
Circuit Judges.

Docketed as a Judgment #67,487 on Aug. 31, 1965 at 9:30 a.m.

MONSANTO CHEMICAL COMPANY,
Successor by Merger to
THE CHEMSTRAND CORPORATION,
Appellee-Appellant, (Plaintiff),

v

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Appellant-Appellee, (Defendant).

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

Judgment of the Court of Appeals

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the Judgment of said District Court be and it hereby is reversed and that the action be and it hereby is remanded to said District Court for an accounting of the defendant's profits resulting from its infringement of the Acrilan trademark in accordance with the opinion of this court with costs to the appellee-appellant Monsanto Chemical Company.

It is further ordered, adjudged and decreed that $1500. for legal expenses on this appeal be and it hereby is allowed to said appellee-appellant.

A. DANIEL FUSARO
Clerk

Denial of Petition for Rehearing

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

MONSANTO CHEMICAL COMPANY,
Successor by merger to
THE CHEMSTRAND CORPORATION,
Appellee-Appellant (Plaintiff),

v.

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Appellant-Appellee (Defendant).

PETITION FOR REHEARING

NATANSON, GORDON & REICH,
New York, N. Y., for petitioner
and defendant-appellant-appellee.

Petition for rehearing denied.

J. E. L.
L. P. M.
U. S. C. JJ.

25 August 1965

Order Extending Time to File Petition for Writ of Certiorari

SUPREME COURT OF THE UNITED STATES

No. , October Term, 1965

MONSANTO CHEMICAL COMPANY, ETC.,
Petitioner,

vs

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.

UPON CONSIDERATION of the application of counsel for petitioner,

IT IS ORDERED that the time for filing a petition for writ of certiorari in the above-entitled cause be, and the same is hereby, extended to and including January 22nd, 1966.

/s/ JOHN M. HARLAN
Associate Justice of the Supreme Court of the United States

Dated this 12th day of
November, 1965

Reply Brief of Appellant-Appellee (Defendant)

Docket No. 29179

MONSANTO CHEMICAL COMPANY,
Successor by merger to
THE CHEMSTRAND CORPORATION,
Appellee-Appellant (Plaintiff),

against

PERFECT FIT PRODUCTS MANUFACTURING CO. INC.,
Appellant-Appellee (Defendant).

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

• • •

PLAINTIFF'S APPEAL

POINT I

THE DISTRICT JUDGE PROPERLY HELD THAT THE ABSENCE OF COMPETITION BETWEEN THE PARTIES PRECLUDED AN ACCOUNTING OF PROFITS.

In rejecting plaintiff's demand for an accounting of profits, the District Judge said:

> "The parties, however, are not competitors. Plaintiff manufactures and sells fibers, not mattress pads. It has been squarely held by the Court of Appeals in this Circuit that in such a situation an accounting of profits may not be allowed, because

defendant's profits are not an equitable measure of plaintiff's damage.

Triangle Publications v. *Rohrlich,* 167 F. 2d 969 (2d. Cir. 1948);
Admiral Corporation v. *Penco Inc.,* 203 F. 2d 517 (2d. Cir. 1953).

I am bound by these decisions. Accordingly, an accounting of profits is denied." (32a).

Plaintiff argues, however, that this Court did allow accountings in two cases ". . . notwithstanding the absence of competition between the parties." (Plaintiff's Brief, Page 13.) That argument finds no support in the two cases cited by plaintiff.

In

Dad's Root Beer Co. v. *Doc's Beverages, Inc.,* 193 F. 2d 77 (2d Cir. 1951),

plaintiff and defendants were *in direct competition,* as manufacturers and sellers of the same beverages. One of the defendants previously had been plaintiff's franchisee. However, there was no direct *geographical* competition between them. Defendants did business in the New York market. Plaintiff's nearest distribution points were in Buffalo, Newark and Philadelphia. This Court, prior to its decision in *Admiral* v. *Penco,* did not depart from the rule already enunciated in *Triangle Publications.* It held only that where the parties *were* in direct competition on the same level of commerce, the absence of direct competition in the same *geographical* area did not preclude an accounting of profits.

Stipulation Extending Time of Brief

* * *

IN THE

SUPREME COURT OF THE UNITED STATES

No. 763

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Petitioner,
Appellant-Appellee,
Defendant, below

against

MONSANTO CHEMICAL COMPANY,
Successor by Merger to
THE CHEMSTRAND CORPORATION,
Respondent,
Appellee-Appellant,
Plaintiff, below.

Stipulation

IT IS HEREBY STIPULATED by and between counsel for the respective parties hereto, the Honorable Court consenting, that the time within which respondent, Monsanto Chemical Company, may file its brief in opposition to the petition for writ of certiorari filed by Perfect Fit Products Manufacturing Co., Inc. be extended to January 22, 1966 to coincide

with the date on which respondent's cross-petition for writ of certiorari is now due.

Dated: December 9, 1965

GRANVILLE M. BRUMBAUGH
Granville M. Brumbaugh
Braumbaugh, Free, Graves & Donohue
90 Broad Street
New York, N. Y. 10004
Counsel for Respondent

Dated: December 15, 1965

JAY F. GORDON
Jay F. Gordon
Natanson, Gordon & Reich
11 West 42nd Street
New York, N. Y. 10036
Counsel for Petitioner

12/17/65 Time for filing response extended to and including January 22, 1966.

(Signature Illegible)
Chief Deputy Clerk

Office-Supreme Court, U.S.
FILED
JAN 22 1966
JOHN F. DAVIS, CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No. 763

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Petitioner,

vs.

MONSANTO CHEMICAL COMPANY,
Successor by Merger to
THE CHEMSTRAND CORPORATION,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR RESPONDENT IN OPPOSITION

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No. 763

IN THE

Supreme Court of the United States

OCTOBER TERM 1965

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Petitioner,

vs.

MONSANTO CHEMICAL COMPANY,
Successor by Merger to
THE CHEMSTRAND CORPORATION,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR RESPONDENT IN OPPOSITION

Questions Presented

Respondent, Monsanto Chemical Company, hereinafter referred to as "Monsanto", objects to the petitioner's wording of the "Questions Presented" appearing on page 3 of its petition.

Petitioner's statement of the "threshold" question is inaccurate in that it includes as a stated assumption the assertion that the parties "are not competitors in any sense." As will be demonstrated below, this assertion is inaccurate.

It is also significant that petitioner no longer argues, as it did before the Court of Appeals, that "the absence of competition between the parties precludes an account-

ing of profits" (Petitioner's Reply Brief before Court of Appeals, p. 2).* Petitioner (hereinafter referred to as "Perfect Fit") has subtly changed its position so that now it phrases its question: "whether a successful trademark plaintiff may be awarded an accounting of the defendant's profits, where the parties do not conduct business on the same level of commerce, are not competitors in any sense *and there is no proof of any damage sustained.*" (emphasis added) (Petition p. 3).

Statement of the Case

Monsanto believes that the petitioner's "Statement of the Case" is inaccurate and misleading in that it creates the impression that the dispute between the parties arose as the result of an honest misunderstanding. The fact is, as will be seen below, the dispute arose as a result of petitioner's willful infringement of Monsanto's trademarks as a part of a preconceived plan to trade upon Monsanto's reputation.

Respondent's Statement

Monsanto manufactures acrylic fibers which it sells under the registered trademark "Acrilan." These fibers are used, *inter alia,* in the manufacture of quilted products, such as coverlets, mattress pads and in the manufacture of blankets for use as bedding (B-8).

Perfect Fit sells bedding items, including mattress pads, bedspreads and coverlets, which are manufactured for it by its wholly-owned subsidiary, Carolina Manufacturing Co. (B-11).

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* Respondent has adopted the reference symbols used by petitioner and has added additional reference symbols as follows:

Parenthetic references (A-) are to the pages of the appendix to the petition; (B-)are to the pages of the appendix to the brief in opposition; (R-) are to the pages of the appendix to petitioner's main brief in the Court of Appeals; and (X-) are to the pages of the appendix to respondent's reply brief in the Court of Appeals.

In 1958 Perfect Fit embarked upon a course of deliberate infringement of the "Acrilan" trademark by selling to the trade mattress pads bearing the "Acrilan" trademark without license from the trademark owner. An exemplar of the blatant appropriation of the "Acrilan" trademark is attached hereto (B-1).

Upon notification that the mattress pads with the misappropriated trademark were on the market, Monsanto purchased a number of the pads and tested them. All of these pads labeled as "Acrilan" mattress pads contained less than 25% of acrylic fiber and some contained none whatsoever. The rest of their fill consisted of cotton, acetate, nylon and other fibers, mixed in various proportions. Some of the fibers were second-hand waste materials, such as fibers from floor sweepings, which contained considerable amounts of dust (B-12; B-13; B-15).

The labels on the pads claimed that the pads were "completely sanforized to prevent shrinkage" and "allergy-dust-proof-mothproof-will not mildew." Each of these claims was false (B-15). In addition, the covers for the pads, as the district court found, were made of:

> ". . . cheap, poor quality cloth, low in thread count and heavily sized with 30 per cent by weight starch and talc to give the appearance of good quality cloth. As evidenced by before and after washing specimens, the sizing rinsed out with a single washing leaving a dust-porous, rough fabric having an inferior appearance." (B-13)

On July 25, 1958, Perfect Fit admitted the mislabeling and, on "Monsanto's insistence, supplied what purported to be a list of the customers for the pads. In fact, however, the largest customer was not on the list (B-18).

The parties again conferred in August, 1958 and Perfect Fit proposed to manufacture a nylon-Acrilan pad, so labeled. Nothing came of this, however, and Monsanto brought suit in November, 1958 in the Southern District of New York, alleging infringement of its trademark and

unfair competition. In December, 1958, a preliminary injunction was granted on Monsanto's motion (B-26, R-6a).

The trial court found that Perfect Fit had infringed Monsanto's registered trademark, that its acts constituted unfair competition, and that it had acted "willfully with full knowledge of plaintiff's rights and as part of a pre-conceived plan to trade upon plaintiff's goodwill." (B-16) The trial court granted a permanent injunction and awarded $15,877.88 as costs and attorneys' fees.

The trial court denied Monsanto's prayer for an award of damages and for an accounting of defendant's profits.

Both parties appealed. The Court of Appeals for the Second Circuit found that (a) Perfect Fit had deliberately infringed (B-24), (b) Perfect Fit had used fraudulent sales practices and commercial piracy to defraud thousands of consumers (B-24, B-38), (c) there must have been some economic injury to the respondent and injury to its trademark (B-36, B-38). The Court of Appeals then affirmed the trial judge's refusal to award damages, but remanded the case to the trial court for an accounting of Perfect Fit's profits. In addition, the Court of Appeals affirmed the award of the legal fees and costs and made an additional award to Monsanto of $1500.00 for legal expenses on the appeal.

The Reasons for Denying the Writ

1. The decision of the Court of Appeals, in so far as it ordered an accounting of Perfect Fit's profits, is in accord with, and brings the Second Circuit into conformance with, the better considered opinions of the other judicial circuits.

2. The decision of the court below is in accordance with the trademark law as enunciated by this court.

3. The public interest requires the decision of the court below ordering an accounting be left standing.

4. In view of the finding that petitioner had willfully infringed and fraudulently palmed off its goods under re-

spondent's trademark there is no question but that the award of attorneys fees was proper.

ARGUMENT

1. The Decision Below, In So Far as It Ordered an Accounting, Is Consistent with the Prior Decisions of Other Circuits on the Same Question.

There is no conflict between the decision of the Court of Appeals of the Second Circuit and the prior expressed rule of the several circuits on the same question. The prior decisions in each circuit that has ruled on the propriety of an accounting of a defendant's profits for trademark infringement have ordered an accounting on either of two theories, neither of which is inconsistent with the other. One group of circuits awards defendant's profits where the plaintiff has been found to be somehow damaged by the defendant's acts. The second group—and it is submitted that these are the more carefully reasoned opinions—has recognized that the trademark owner has a valuable property right in his trademark and that the owner should be reimbursed for its unauthorized use by another for profit.

In some cases in which an accounting has been ordered, the plaintiff's injury has been presumed because of the direct competition between the parties and the assumed loss of sales by plaintiff if infringing sales were made by defendant. In others, plaintiff's injury has been proven in a variety of ways and an accounting for profits ordered.

The decision in the cases relied upon by petitioner at page 8 of the Petition cover a variety of situations. None of these cases are directly in conflict with the decision below. Thus, the *Vogue, Horlick's* and *Hanson** cases involved

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* *Vogue Co.* v. *Thompson-Hudson Co.*, 300 Fed. 509 (6th Cir.); Cert. den. 273 U. S. 706.

Horlick's Malted Milk Corporation v. *Horluck's, Inc.*, 59 F.2d 13 (9th Cir.).

Hanson v. *Triangle Publications, Inc.*, 163 F.2d 74 (8th Cir.); Cert. den. 332 U. S. 855.

unfair competition and not trademark infringement, and any comments on recovery for trademark infringement are merely dicta. The other cases relied upon by petitioner involved findings of no injury at all to plaintiff, no profits by the defendant by reason of its infringement, or that the recovery would be so insubstantial that an accounting would not be warranted.

Other cases, typified by decisions in the First, Third and Tenth Circuits, *Baker* v. *Simmons Company* (1st Cir. 1963), 325 F. 2d 580; *Century Distilling Co.* v. *Continental Distilling Corp.,* (E. D. Pa.) 86 F. Supp. 503, affirmed, (3d Cir. 1953), 205 F. 2d 140; *Blue Bell Co.* v. *Frontier Refining Co.* (10th Cir. 1954) 213 F. 2d 354, have progressed one step further and recognized that whether or not the plaintiff has actually been injured by the activities of the defendant, the defendant has made use of a valuable property of the plaintiff's and, if the defendant has made any profits because of his unauthorized use, they belong to the owner of the property used, and not to the infringer. This Court has also recognized this position in *Hamilton-Brown Shoe Co.* v. *Wolf Brothers & Co.* (1915), 240 U. S. 251, 259:

> "Having reached the conclusion that complainant is entitled to the use of the words 'The American Girl' as a trade-mark, it results that it is entitled to the profits acquired by defendant from the manifestly infringing sales under the label 'American Lady,' at least to the extent that such profits are awarded in the decree under review. The right to use a trade-mark is recognized as a kind of property, of which the owner is entitled to the exclusive enjoyment to the extent that it has been actually used. *McLean* v. *Fleming,* 96 U. S. 245, 252; *Manhattan Medicine Co.* v. *Wood,* 108 U. S. 218, 224. The infringer is required in equity to account for and yield up his gains to the true owner, upon a principle analogous to that which charges a trustee with the profits acquired by wrongful use of the property of the *cestui que trust.*"

The decision of the Court of Appeals below recognized that certain earlier decisions* of the Second Circuit, which the District Court felt bound to follow, were entirely too narrow in their apparent misinterpretation of decisions in other circuits. These earlier Second Circuit decisions relied only on the test of actual competition, failing to recognize that such test was only one of several for determining the answer to the basic question of injury to the trademark owner.

In spite of the decisions in the Second Circuit, in the *Triangle* and *Admiral* cases, several subsequent cases have found no great difficulty in applying equitable principles, *Maternally Yours, Inc.* v. *Your Maternity Shop, Inc.* (2nd Cir. 1956), 234 F. 2d 538; *Dad's Root Beer Co.* v. *Doc's Beverages* (2nd Cir. 1951), 193 F. 2d 77; *Admiral Corporation* v. *Sewing Machine Sales Corp.* (S. D. N. Y. 1957), 156 F. Supp. 796. As stated by Judge Waterman in *Maternally Yours, Inc.* v. *Your Maternity Shop, Inc.*, 234 F. 2d 538, 545:

> "Defendant's final group of contentions relate to the relief granted by the trial judge. We think these contentions are without merit, and that the relief granted is adapted to the general equities of the situation. While we have held that an accounting of damages and profits should not be the invariable result of a finding of infringement, Admiral Corp. *v.* Penco, Inc., 2 Cir., 1953, 203 F. 2d 517, where findings of confusion and 'palming off' are supported by the record, an accounting is justified. Mishawaka Rubber & Woolen Mfg. Co. *v.* S. S. Kresge Co., 1942, 316 U. S. 203, 62 S. Ct. 1022, 86 L. Ed. 1381; Century Distilling Co. *v.* Continental Distilling Corp., 3 Cir., 1953, 205 F. 2d 140. The assessment of damages and profits, of course, must be in accordance with statutory provisions and long-settled equitable principles. See 15 U. S. C. A. § 1117."

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* *Admiral Corp.* v. *Penco, Inc.*, 203 F. 2d 517 (2 Cir. 1953).
Triangle Publications, Inc. v. *Rohrlich*, 167 F. 2d 969 (2 Cir. 1948).

> "Finally, defendant contends that its New Rochelle and Philadelphia stores should not be included in the accounting, the New Rochelle store because it was established prior to the formal notice of infringement, and the Philadelphia store because plaintiff does not have a competing store in the Philadelphia area. However, the trial judge found that defendant adopted its trademark name with knowledge of plaintiff's trademark; and an infringer must account for profits even in areas where he does not directly compete with the trademark owner."

Considering the basic question of injury and overruling the prior Second Circuit decisions only in so far as they were inconsistent with the present holding, Chief Judge Lumbard found that ". . . it seems obvious that there must have been some economic injury to Monsanto, such as loss of sales to legitimate producers and the loss of the good will of some retail purchasers of Perfect Fit's inferior 'Acrilan' mattress pads." (B-36). He further found that the petitioner's "commercial piracy . . . injures a trade name built up at considerable cost by legitimate means." (B-38).* Thus, the order for an accounting of profits is perfectly consistent with the earlier decisions of the Second Circuit and other circuits.

2. The Decision of the Court of Appeals Is Perfectly Consistent with the Prior Decisions of This Court.

In *Mishawaka Rubber & Woolen Mfg. Co.* v. *S. S. Kresge Co.* (1942) 316 U. S. 203, the respondent S. S. Kresge Co. was found to have infringed the Mishawaka trademark as used on a combination of shoes and heels, by Kresge's unauthorized use of the same trademark on rubber heels

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* The Court of Appeals recognized as a preliminary to those findings that the District Court had found that Respondent had "not adequately proved damages" (A-4) as such term is used to define dollars and cents losses by respondent. But, as stated by the Court of Appeals, respondent was nevertheless actually *injured.*

sold separately from shoes. The District Court, affirmed by the Court of Appeals, had awarded an accounting of the profits but only of profits made from sales to purchasers who were actually confused by the infringement. The plaintiff petitioned for review of this limited scope of accounting.

Mr. Justice Frankfurter adopted the finding of the courts below that (p. 204):

> "The heels sold by the respondent were inferior in quality to those made by the petitioner and 'this tended to destroy the good will created by the plaintiff in the manufacture of its superior product.' Although there was no evidence that particular purchasers were actually deceived into believing that the heels sold by the respondent were manufactured by the petitioner, the District Court found that there was 'reasonable likelihood' that some purchases might have been induced by the purchaser's belief that he was obtaining the petitioner's product."

Mr. Justice Frankfurter recognized that a trademark owner has "something of value" in his trademark and that the award of profits is designed to make the plaintiff ". . . whole for losses which the infringer has caused by taking what did not belong to him . . .".

The majority opinion affirmed the holding of the courts below that, even though the goods sold were not competitive in the narrowest sense of the word, an accounting should take place. It reversed, however, the ruling establishing the narrow scope of the accounting and held (pp. 207-208):

> "The decree in effect requires the petitioner to prove by a procession of witnesses, that when they bought heels from the infringer they had a clear, well-focused consciousness that they were buying the petitioner's heels and that otherwise they would not have bought them. But the shoe is on the other foot. The creation of a market through an established symbol implies that people float on a psychological current

> engendered by the various advertising devices which give a trade-mark its potency. It is that which the Trade-Mark Act of 1905 protects."

Mr. Justice Black's dissent in *Mishawaka* noted that the goods sold by the parties were not the same, and also noted the finding by the courts below that there had been no evidence of actual confusion, but nevertheless concluded (p. 209):

> "If the respondent had willfully palmed off the heels it sold as products of the petitioner, and if it had been shown that the petitioner had suffered any injury, I should agree to a decision resolving doubts about the measure of damages in favor of the petitioner."

Both findings required by Mr. Justice Black, namely, willful palming off by the defendant and injury to the plaintiff, were found by the court below (B-24, B-26, B-36, B-38).

This Court has reaffirmed the rule of the *Mishawaka* in *Champion Plug Co.* v. *Sanders* (1946) 331 U. S. 125, 131.

Although petitioner's mattress pads and respondent's "Acrilan" acrylic fiber are not competitive in the narrow sense of the term, they are nevertheless competitive in a very real sense. The fraudulent sales by petitioner clearly competed with respondent's attempts to sell its acrylic fiber for similar uses to others. In addition, petitioner purchased and used other filler fibers instead of respondent's, which it would have purchased except for its fraudulent plan. Finally, petitioner has competed with respondent in the marketplace of the retail purchaser: petitioner has used respondent's mark to sell its shoddy product as Monsanto's in conflict with Monsanto's attempt to use its mark to develop a "congenial symbol" for its products and the many products made therefrom by Monsanto's licensees.

Not only does petitioner compete with respondent but the courts below have specifically held that it has *unfairly* competed (B-21).

3. The Public Interest Requires that the Decision Ordering an Accounting Be Left Standing.

The petitioner has argued in its petition before this Court that the Court of Appeals erred in placing "a new weapon of financial attrition in the hands of self-appointed private guardians of the public interest."

Such anxious concern over the Court of Appeals' desire to protect the public from willful and fraudulent misuse of trademarks by infringers to deceive the public could well be expected from a "commercial racketeer" which "has, it appears, taken up trademark infringement as its principal line of business." (B-36, B-37).

Petitioner's concern notwithstanding, it is well recognized that it is the duty both of the trademark owner and of the courts to protect the public from the deceit of improper trademark usage. In the Senate Report No. 1333, 79th Congress, 2d Session, 1-2 (1946) U. S. Code Cong. Serv. (1946) 1274 ff., the purposes of the Lanham Trade Mark Act were noted in part as follows:

> "The purpose underlying any trade-mark statute is twofold. One is to *protect the public* so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law *protecting both the public* and the trademark owner. * * * (Emphasis added)
>
> * * *
>
> "The protection accorded trade-marks is merely protection against swindling."
>
> * * *
>
> "To protect trade-marks, therefore, is to *protect the public* from deceit, to foster fair competition, and

> to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not. This is the end to which this bill is directed." (Emphasis added)
>
> • • •
>
> "Generally to simplify trade-mark practice, to secure trade-mark owners in the goodwill which they have built up, and to *protect the public* from imposition by the use of counterfeit and imitated marks and false trade descriptions." (Emphasis added)

This duty of protecting the public has further found its expression in Section 5 of the Lanham Trademark Act wherein the trademark owner is required to control authorized use of its mark so as to insure that the "mark is not used in such manner as to deceive the public" (B-5).

The courts have recognized that the public interest is involved in trademark usage in the decisions considering policing by trademark owners. For example, in *Susser et al.* v. *Carvel Corp. et al.* (1964), 332 F.2d 505, the Second Circuit Court of Appeals held: "It is in the *public interest* that products sold under one particular trademark should be subject to the control of the trademark owner." (Emphasis added)

Thus the concern by the Court of Appeals with the deception of thousands of consumers by means of petitioner's fraudulent use of respondent's trademarks is clearly within the scope of its equitable jurisdiction.

4. In View of the Finding that Petitioner Had Willfully Infringed and Fraudulently Palmed Off Its Goods Under Respondent's Trademark There Is No Question but that the Award of Attorneys Fees Was Proper.

The Court of Appeals agreed with the District Court that Petitioner had unfairly acted "willfully with full knowledge of plaintiff's rights and as a part of a precon-

ceived plan to trade upon plaintiff's goodwill" (B-26) and concluded that an injunction was inadequate "to deter those who deliberately engage in commercial piracy which defrauds thousands of consumers" (B-38). The award of attorneys fees in cases of far less blatant piracy has been sustained by the courts. *Maternity Yours, Inc.* v. *Your Maternity Shop, Inc.* (2 Cir. 1956), 234 F. 2d 538; *Aladdin Mfg. Co.* v. *Mantle Lamp Co. of America* (7 Cir. 1941), 116 F. 2d 708. This award is clearly within the sound discretion of the District Court and of the Court of Appeals and under the circumstances of this case the award was proper.

Conclusion

For the foregoing reasons it is respectfully submitted that this petition for a writ of certiorari should be denied.

Respectfully submitted,

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IN THE

Supreme Court of the United States

October Term, 1965

No. 937

MONSANTO CHEMICAL COMPANY,
Successor by Merger to
THE CHEMSTRAND CORPORATION,
Cross-Petitioner,

vs.

PERFECT FIT PRODUCTS MANUFACTURING CO., INC.,
Cross-Respondent.

CROSS-RESPONDENT'S BRIEF IN OPPOSITION

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CROSS-RESPONDENT'S BRIEF IN OPPOSITION

Questions Presented

Cross-respondent Perfect Fit Products Manufacturing Co., Inc. ("Perfect Fit") objects to cross-petitioner's statement of the first of the two questions allegedly presented by the cross-petition.

In phrasing that question, cross-petitioner ("Monsanto") proceeds upon the assumption that the Court of Appeals ". . . expressly found that Monsanto had been injured by the infringement of its trademark . . ." (cross-petition, p. 3). That assumption is wholly without support in the record.

The Court of Appeals, in disposing of Monsanto's claim for damages, said:

> "Monsanto's appeal attacks both Judge McLean's finding that it has not adequately proved damages and his conclusion that an accounting is unavailable since the parties are not competitors.

> "We affirm Judge McLean's refusal to award damages." (B–26).*

Judge McLean's refusal to award damages was based upon a careful analysis of the scanty evidence which Monsanto adduced on that issue (R–30a–32a). That analysis produced the following conclusion (R–32a):

> "I conclude, therefore, that the evidence here does not justify an award of damages to plaintiff."

Monsanto disregards the express affirmance by the Court of Appeals of the District Court's said finding. Instead, it relies upon the Court of Appeals' conjecture ". . . that there must have been some economic injury to Monsanto . . ." (B–36). The Court of Appeals made that comment only in the process of justifying a novel departure from existing law with respect to accountings, although later it again affirmed the finding that Monsanto had been ". . . unable to offer satisfactory proof of its injury . . ." (B–36).

Properly framed, the first question presented by Monsanto's cross-petition should be stated as follows:

> "Did the Court of Appeals err in affirming the denial of an award of damages?"

The Statement of the Case

We are obliged to comment upon the following inaccuracies in, or omissions from, Monsanto's statement:

1. At page 4 of the cross-petition, Monsanto states that a preliminary injunction in this case was granted on Mon-

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* Parenthetic references are used herein as follows: (B–) refers to pages in the Appendix to the cross-petition; (R–) refers to pages in the Appendix to Perfect Fit's main brief on appeal below; (A–) refers to pages in the Appendix to this brief; (X–) refers to pages in the Appendix to Monsanto's brief on appeal below.

santo's motion. It omits to state that the preliminary injunction was granted on Perfect Fit's *consent*, afer argument of the motion and negotiations between the parties as to scope and form (B–26, R–6a).

2. At page 5 of the cross-petition, Monsanto states that Perfect Fit could not "... show written account for the destruction ..." of any of the 80,000 bags or inserts bearing Monsanto's trademarks. Reference to the portion of the record cited by Monsanto (X–2b) indicates only that it was stipulated that Perfect Fit and Carolina, its contractor, had no written record of the *number* of such bags and inserts which were destroyed. The uncontradicted testimony, on Monsanto's own case, was that all such bags and inserts, which were not actually used for the approximately 13,700 mattress pads sold on the retail market, had been destroyed. Perfect Fit rested on Monsanto's case (B–24).

3. At page 5 of the cross-petition, Monsanto again states that the Court of Appeals "found" that Monsanto had been injured by the infringement; and also that the Court found that the public had been "defrauded". There is no support in the record, either at the portions cited by cross-petitioner (B–24, B–38) or elsewhere, for those statements, other than the general comments which the Court made in support of the novel conclusion that an accounting should be awarded, even in the absence of competition or proof of damage (B–36, B–38).

ARGUMENT

1. This is not a case in which this Court should exercise its discretion to grant certiorari.

The cross-petition does not set forth a single "special and important" reason why a review on writ of certiorari should be granted. No conflict of decisions is shown to exist. There is no important question of federal law which has not been, but should be, settled by this Court. There

has been no departure from the accepted and usual course of judicial proceedings.

Rule 19, *Supreme Court Rules.*

The cross-petition is rooted only in Monsanto's dissatisfaction with the affirmance of the District Court's finding that it had failed to prove any damage.

This Court has held, repeatedly, that it will not review, but will accept as unassailable, findings made upon undisputed or conflicting evidence, which have not been questioned on appeal by the Court below and which are not without substantial support in the evidence.

Alabama Power Company v. *Ickes,* 302 U. S. 464, 477;
General Talking Pictures Corporation v. *Western Electric Company, Inc.,* 304 U. S. 175, 178;
Anderson v. *Abbott,* 321 U. S. 349, 356;
Davis v. *Schwartz,* 155 U. S. 631, 637;
Adamson v. *Gilliland,* 242 U. S. 350, 353.

2. The Court of Appeals properly refused to award damages, in any event.

In support of its argument, Monsanto cites this Court's decision in

Anderson v. *Mt. Clemens Pottery Co.,* 328 U. S. 680, 688.

There is no conflict here with the rule enunciated therein. Where the *fact of damage* has been proven and is certain, mere uncertainty with respect to the precise *amount of damages* will not preclude an award. Such an award nevertheless must be based on sufficient evidence, from which a reasonable inference may be made as to the extent of the damages.

Here, the Court of Appeals has affirmed the District Court's finding that Monsanto's evidence was insufficient even to establish the *fact of damage,* much less to warrant any inference with respect to the amount thereof.

Under the circumstances present in this case, it has long been settled that an award of damages cannot be sustained. The rule was expressed by this Court in:

> *Keogh* v. *Chicago & Northwestern Railway Company,* 260 U. S. 156, 164, 165,

as follows:

> "Finally, not only does the injury complained of rest on hypothesis (compare *International Harvester Co.* v. *Kentucky,* 234 U. S. 216, 222-224); but the damages alleged are purely speculative. Under § 7 of the Anti-Trust Act, as under § 8 of the Act to Regulate Commerce, *Pennsylvania R. R. Co.* v. *International Coal Mining Co.,* 230 U. S. 184, recovery cannot be had unless it is shown, that, as a result of defendants' acts, damages in some amount susceptible of expression in figures resulted. These damages must be proved by facts from which their existence is logically and legally inferable. They cannot be supplied by conjecture."

That rule has been followed in many trademark infringement cases, such as

> *Rosenberg Bros. & Co.* v. *Elliott,* 7 F. 2d 962, 967 (3rd Cir.),

which Perfect Fit has also cited, in support of its own pending certiorari petition, as being in conflict with the decision below to the extent that it awarded Monsanto an accounting of profits. The Third Circuit said, in *Rosenberg Bros. & Co., supra*:

> "The case is peculiarly one where such damage as has occurred is incapable of computation. We see no reasonable probability that any substantial damages could be proved and reduced to dollars with

> that degree of accuracy which is essential. Nor does the decision on the issue of trademark infringement make it necessary to hold that the complainant is entitled to profits. Those cases in which the complainant has been awarded all the profits which the respondent received from the sale of the article wrongfully trademarked have been cases in which, by the theory of the law, the complainant had lost sales. There is no evidence of lost sales in this case."

Nevertheless, in tacit acknowledgment that there is no support in the record for a damage award on any other basis, Monsanto urges that it should have been awarded damages on a theory similar to that employed in:

> *Deering, Milliken & Co.* v. *Gilbert,* 269 F. 2d 191 (2nd Cir.),

and suggested by Judge Moore in his dissent below (B–39).

With a firm grip on its bootstraps, Monsanto suggests that it should have been awarded damages based upon a computation of the profits which it *would* have made, on sales to Perfect Fit of the amount of Acrilan which *would* have been consumed, if Perfect Fit had filled with 100% Acrilan all of the mattress pads which it sold under the Acrilan trademark. The defect in that theory, which now stands as the only basis upon which Monsanto claims to be entitled to damages, is readily apparent from the record.

Perfect Fit actually sold only 13,700 mattress pads under Monsanto's trademark, after deduction of returns (B–12). The mattress pads each contained about 20 oz. of filling (X–5b). If each of the mattress pads so sold by Perfect Fit had contained 100% Acrilan, Perfect Fit would have consumed a total of 17,125 lbs. of Acrilan, instead of the smaller percentage of Acrilan which it actually used together with other filling materials. Assuming *arguendo* the validity of Monsanto's theory, it would be entitled to

the profit, which it would have made, on sales to Perfect Fit of a total of 17,125 lbs. of Acrilan, less the number of pounds which Perfect Fit actually did purchase.

It is undisputed, however, that Monsanto actually did sell to Perfect Fit, and Perfect Fit paid for, a total of at least *20,494* lbs. of Acrilan, considerably more than the amount which it would have consumed in the production of some *17,000* Acrilan filled mattress pads, much less the *13,700* pads which it actually sold!

3. The scope of the remand was properly limited.

We do not concede, by any means, that the Court below was correct in reversing the District Court and remanding the case for an accounting of profits. Perfect Fit has petitioned this Court for a writ of certiorari to review that determination. However, Monsanto argues that the remand should be broadened to permit an ultimate award of damages, in addition.

That argument overlooks the settled rule that a complainant in a trademark infringement case cannot recover both its own alleged lost profits and the infringer's actual profits on competing sales.

> *Mishawaka Rubber & Woolen Mfg. Co.* v. *S. S. Kresge Co.*, 316 U. S. 203;
> *Sheldon* v. *Metro-Goldwyn Pictures Corporation*, 309 U. S. 390, 400;
> *Century Distilling Co.* v. *Continental Distilling Corp.*, 205 F. 2d 140, 149 (3rd Cir.); Cert. den., 346 U. S. 900.

Monsanto cites *Mishawaka* as authority for the proposition that the remand should have included provision for an assessment of damages, as well as an accounting of Perfect Fit's profits. The *Mishawaka* decision excluded any award of damages which would have duplicated the award result-

ing from the accounting of profits. Monsanto cannot possibly comply with such a condition, since its only claim for damages now rests upon a non-existent loss of profits, as pointed out in 2 above.

In any event, Monsanto is estopped from offering any further proof of damages. Before Monsanto rested its case, the District Judge inquired of its trial counsel whether Monsanto had presented *all* of the evidence which it proposed to present on the question of damages (A–1). Monsanto's counsel responded (A–1, 2):

> "Aside from the defendant's profit, the plaintiff's proof is presently in the record on the damage question. *We have no intention of putting in any further evidence on the issue of damages.*" (Emphasis supplied).

Any possible uncertainty was eliminated, when the District Judge inquired further:

> "You are sure of that now? That is clear, is it?" (A–2);

and Monsanto's counsel replied:

> "Yes, I am sure." (A–2).

Monsanto now seeks to avoid and disregard that commitment, as clear and as unequivocal as it was, because the proof which it presented has been found completely insufficient *by two Courts.*

That is hardly a basis upon which this Court should be asked to exercise certiorari jurisdiction.

CONCLUSION

For the foregoing reasons, Monsanto's cross-petition for a writ of certiorari should be denied.

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APPENDIX

Stenographic Transcript of the Trial, pp. 1024-1026

The Court: Well, let us try to keep our thoughts distinct. One element of your claim is that you are entitled to an accounting of the defendant's profits.

Mr. Lochner: Yes, your Honor.

The Court: And you say that that can be obtained on an accounting, in an accounting proceeding, whether before the Court or before the master we won't decide at the moment.

Mr. Lochner: Yes.

The Court: Once the issue of liability has been determined.

Mr. Lochner: Yes.

The Court: Now I take it Mr. Gordon agrees with that, as far as the procedure goes; don't you?

Mr. Gordon: Yes, sir.

The Court: All right. Now we are talking about the plaintiff's damages as distinct from the defendant's profits.

Mr. Lochner: I understand.

The Court: And you claim that there are certain elements of damage to the plaintiff in addition to its mere expenses for attorney's fees, investigation and so on.

Mr. Lochner: Yes.

The Court: Now do you propose to prove those additional elements of damage before any interlocutory judgment is entered, or do you say that that also is properly the subject of testimony in an accounting proceeding.

Mr. Lochner: I would say, your Honor, that that is not the proper subject matter of the accounting, that is, the extent to which plaintiff's good will has been damaged. The plaintiff's proof on that issue is in the record.

Well, aside from the defendant's profit, put it this way: Aside from the defendant's profit the plaintiff's proof is presently in the record on the damage question. We have

no intention of putting in any further evidence on the issue of damages.

The Court: Aside from the fact that you have agreed that you can reopen the case to put in some proof on expenses.

Mr. Lochner: Yes.

The Court: You are sure of that now? That is clear, is it?

Mr. Lochner: Yes, I am sure.